

BUSINESS WEEK

December 9, 1961

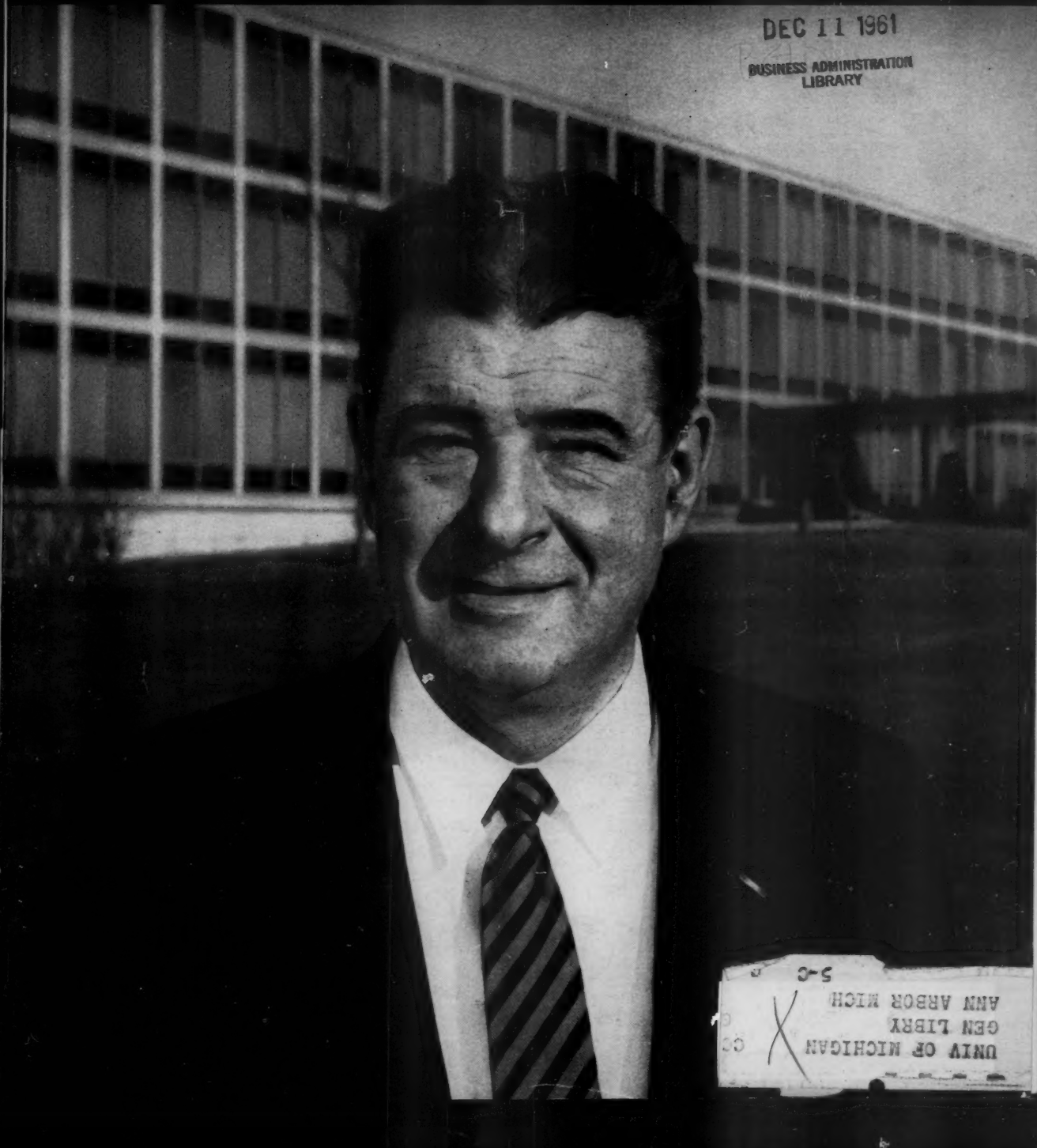
Fifty cents

A McGraw-Hill Publication

How mining giant survives in Congo

Page 60

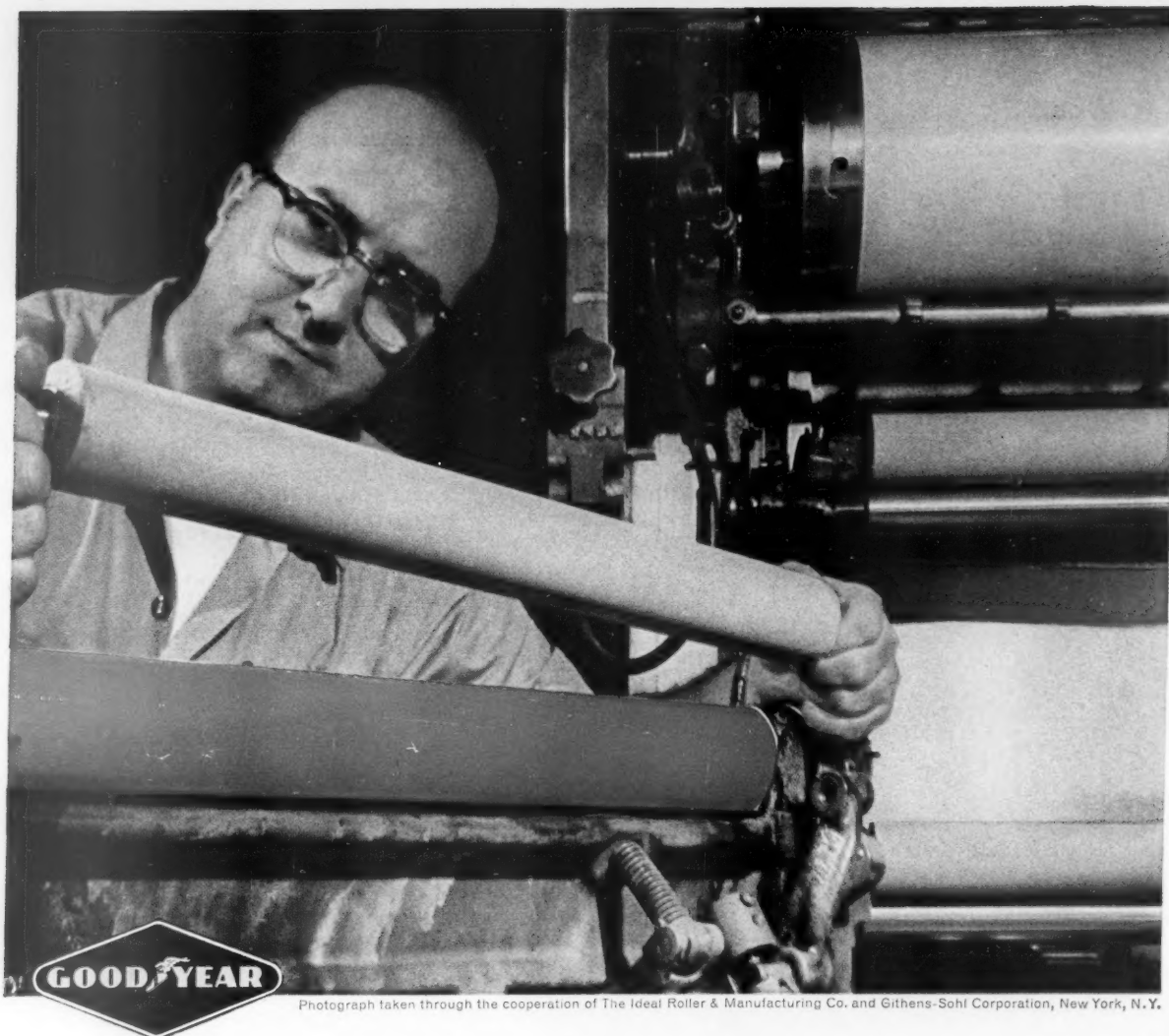
Below: An Air Force general turned civilian,
Pres. Edwin W. Rawlings is gunning for
rapid growth at General Mills [Management]



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Number 1684

Figures of the week



BUSINESS WEEK index chart

Production

	1953-55 average	Year ago	Month ago	Week ago	\$ Latest Week
Steel ingot [thous. of tons]	2,032	1,393	2,044	2,032r	2,073
Automobiles	125,553	135,348	152,855	124,292r	164,919
Engineering const. awards [Eng. News-Rec. 4-wk. daily av. in thous.]	\$52,412	\$83,397	\$78,788	\$70,167	\$69,788
Electric power [millions of kilowatt-hours]	10,819	14,733	15,396	15,330	15,954
Crude oil and condensate [daily av., thous. of bbl.]	6,536	6,984	7,154	7,210	7,198
Bituminous coal [daily av., thous. of tons]	1,455	1,312	1,522	1,482r	1,469
Paperboard [tons]	247,488	280,359	352,866	332,276	331,983

Trade

Carloadings: miscellaneous and l.c.l. [daily av., thous. of cars]	70	57	61	55	55
Carloadings: all others [daily av., thous. of cars]	47	37	47	43	40
Department store sales index [1947-49=100, not seasonally adjusted]	121	173	152	180	184
Business failures [Dun & Bradstreet, number]	198	290	344	238	356

Prices

Industrial raw materials, daily index [BLS, 1947-49=100]	89.2	88.0	89.1	88.1	89.3
Foodstuffs, daily index [BLS, 1947-49=100]	90.5	75.8	74.6	76.2	76.7
Print cloth [spot and nearby, yd.]	19.8¢	17.9¢	17.8¢	17.8¢	17.8¢
Finished steel, index [BLS, 1947-49=100]	143.9	186.2	185.4	185.4	185.4
Scrap steel composite [Iron Age, ton]	\$36.10	\$28.50	\$32.83	\$32.83	\$34.17
Copper [electrolytic, delivered price, E&MJ, lb.]	32.394¢	30.000¢	31.000¢	31.000¢	31.000¢
Aluminum, primary pig [U. S. del., E&MJ, lb.]	20.6¢	26.0¢	24.0¢	24.0¢	24.0¢
Wheat [No. 2, hard and dark hard winter, Kansas City bu.]	\$2.34	\$2.01	\$2.11	\$2.12	\$2.14
Cotton, daily price [middling, 1 in., 14 designated markets, lb.]	34.57¢	30.20¢	33.60¢	33.58¢	33.58¢
Wool tops [Boston, lb.]	\$1.96	\$1.67	\$1.81	\$1.81	\$1.81

Finance

500 stocks composite, price index [S&P's, 1941-43=10]	31.64	55.50	69.87	71.79	71.81
Medium grade corporate bond yield [Baa issue, Moody's]	3.59%	5.11%	5.11%	5.10%	5.10%
Prime commercial paper, 4 to 6 months, N. Y. City [prevailing rate]	2-2½%	3½%	3%	3%	3½%

Banking Millions of dollars

Demand deposits adjusted, reporting member banks	††	60,398	63,423	62,644	63,906
Total loans and investments, reporting member banks	††	108,668	117,467	117,263	117,327
Commercial, industrial and agricultural loans, reporting member banks	††	33,067	33,295	33,264	33,357
U. S. gov't guaranteed obligations held, reporting member banks	††	29,690	34,087	33,867	33,932
Total federal reserve credit outstanding		26,424	29,026	30,465	30,510
Gold stock		21,879	17,897	16,975	16,975

Monthly figures of the week

		1953-55 average	Year ago	Month ago	Latest Month
Public expenditures for new construction [in millions]	November ..	\$980	\$1,376	\$1,626	\$1,425
Private expenditures for new construction [in millions]	November ..	\$2,390	\$3,395	\$3,699	\$3,637
Consumer credit outstanding [in billions]	October ..	\$34.1	\$54.3	\$54.9	\$55.1
Installment credit outstanding [in billions]	October ..	\$24.2	\$42.6	\$42.6	\$42.7
Manufacturers' inventories [seasonally adjusted, in billions]	October ..	\$45.2	\$54.4	\$54.4	\$54.8

* Preliminary, week ended December 2, 1961.

†† Not available. Series revised.

r Revised.

\$ Date for 'Latest Week' on each series on request.

The Pictures: Cover, Marty Nordstrom; 25, Herb Kratovil; 26, (lt.) Gene Pyle, (cen.) Joan Sydlow, (rt.) Noel Clark; 27, (lt.) Synthetic Organic Chemical Mfrs. Assn., (rt.) Carter Jones; 29, Noel Clark; 30, (top & bot. rt.) Pat Coffey, (bot. lt.) A.E.C.; 31, Pat Coffey; 32, (lt.) Radio Corporation of America, (rt.) Tibor Hirsch; 33, Tibor Hirsch; 46, (lt.) Bud Kamerish, (rt.) General Electric Co.; 50, Harris-Intertype Corp.; 53, Marty Nordstrom; 58, Herb Kratovil; 60, Tibor Hirsch; 61, Union Minière; 72, UPI; 97, (top) New York Building Congress, (cen.) WW, (bot.) Gene Pyle; 102, Herb Kratovil; 103 (top lt.) Grant Compton, (top rt. & bot.) Herb Kratovil; 116, 117, 120, Mike Shea; 122, 124, James Drake.

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BUSINESS WEEK December 9, 1961

READERS REPORT

The favored few

Dear Sir:

Reader Kadison is misinformed when he writes that Sunshine Biscuit is forbidden by the Robinson-Patman Act to cut prices to get new customers [BW Nov.18'61, p6]. The price discrimination law does not ban price cutting. It simply prohibits selective price cutting to favored customers where the effect of discrimination may substantially lessen competition.

Ronald H. Wolf

Assistant Professor of Economics
University of Tennessee
Knoxville, Tenn.

Products that last

Dear Sir:

It appears that the path of productivity by way of profit-sharing "Important test for profit-sharing" [BW Nov.18'61,p139], has its impediments also, among them being the right not to work if one doesn't feel like it.

The big paradox is that auto workers, like other consumers, doubtless like quality and longevity built into the products they buy. Lack of pride in their own work prevents the public from getting cars free from defects unless the dealer is conscientious enough to take care of factory inefficiency.

Richard F. Blough

Johnstown, Pa.

Leader of the lakes

Dear Sir:

I suppose every medium-sized city that is less than 50 miles away from a large city is overlooked in just the way Hamilton was overlooked in your most interesting story on the Seaway [BW Nov.18 '61,p80]. Your writer refers to Toronto as the most important of Canada's lake ports, pointing out that \$20-million has already been invested in port development.

... Hamilton Harbour's tonnage in 1960 was approximately 8½-million, just twice the 4½-million tons shipped in and out of Toronto's harbour. This places Hamilton first among all of Canada's lake ports in harbour tonnage, a position which we have occupied now for a number of years. . . .

J. H. Moore

Hamilton Chamber of Commerce
Hamilton, Canada

information about

Quad Cities

for industrial site seekers

The Quad City area—a community of ten towns with a nucleus of Davenport, Iowa, and Rock Island, Moline, and East Moline, Illinois—offers attractive opportunities for industrial development. An industrial community in the heart of the nation's best agricultural land, the Quad City area is astride the Mississippi River midway between Minneapolis and St. Louis, and midway between Chicago and Des Moines. Over a quarter of a million people live here—on 899 square miles of land.

Choice industrial sites are available in the Quad City area adjacent to the Rock Island railroad. If the following information interests you, get in touch with us for more specific details. We'll work with you in strictest confidence.

LABOR: Total civilian labor force of 116,375 in the Quad City area; 2800 high school graduates annually with 1200 going on to college; average education 10.1 years.

POWER: Capability of electric plants 380,000 KW; peak day natural gas 150,000,000 cu. ft. with unlimited supply for increased use; 584,000 bbl./yr. oil pipeline capacity; soft coal deposits of 60 million tons within 70 miles.

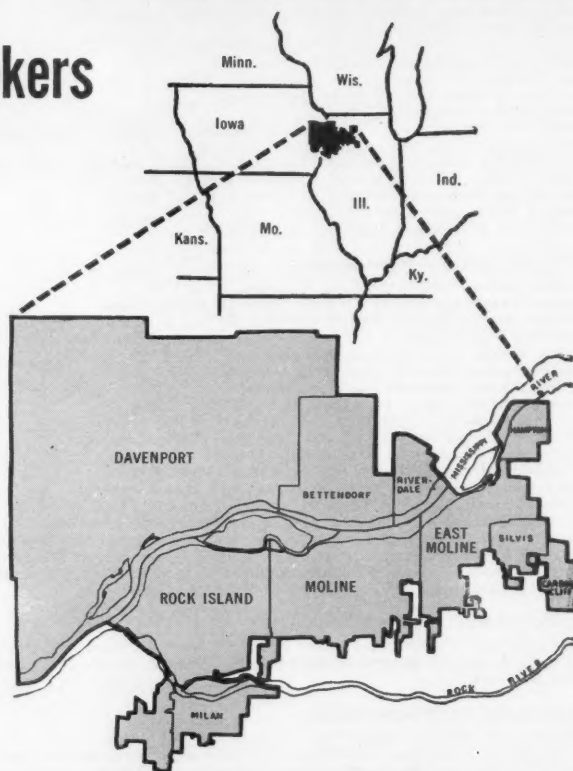
TRANSPORTATION: The Rock Island and 3 other railroads; 2 airlines; 69 interstate common carrier truck lines; 5 bus lines; 50 barge companies on this section of the Mississippi River.

HOUSING: 10,603 new dwelling units in ten years (1951-60); urban renewal project under development.

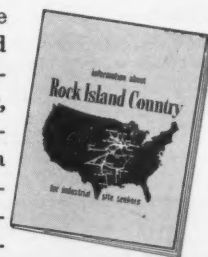
THE COMMUNITY: 13 high schools with 7 less than 4 years old; 5 colleges; 61 commercial and fine arts private schools; 101 parks and playgrounds with 2600 acres; 4 forest preserves with 1900 acres; 7 general hospitals with 286 physicians.

COMMERCIAL SERVICES: 383 industrial firms; 12 contractors for industrial plant construction.

CLIMATE: 28 days annually with 90° or higher; 11 days with 0° or lower; annual precipitation 33.1".



INFORMATIVE BROCHURE describes 12 key markets in Rock Island Country. This fact-packed "Rock Island Country" booklet, as well as further details on industrial sites in the Quad City area, may be obtained by writing on your company letterhead to P. J. Schmidt, Manager, Industrial Development, Department 178, Rock Island Lines, La Salle Station, Chicago 5. The brochure and supplementary information will be mailed in a plain envelope marked "Confidential."



ROCK ISLAND LINES

*The railroad of planned progress
... geared to the nation's future
Chicago 5*

December 9, 1961

Higher interest looms as drag on construction

Construction is poised for another record year—surely in dollar value and probably in physical volume as well. The experts are of one mind.

There must be one note of caution, however. Current developments in the money market (and others that may ensue) will be of no help.

Mutual savings banks in the state of New York recently were permitted to raise interest rates. Now the country's commercial banks have won similar authorization—moving at once to take advantage of it (page 34). All of which gives rise to a battle for deposits.

More time deposits, more mortgage money? Certainly. But at a price. This pushes, too, on the rates savings & loans must pay for new funds and, in turn, on what they must charge borrowers.

So far, the supply of mortgage funds is anything but tight (page 28). Rather, it's the wooing of savers' dollars that tends to exert an up-thrust on mortgage rates at the moment.

Next year, however, over-all demand for money will be more avid.

If business improves as expected, corporations will be competing for available funds. Moreover, the Federal Reserve may feel obliged to tighten its reins.

Experts set goal of \$60-billion for '62 building

Whatever influence interest rates may have on homebuilding and industrial construction later on, few of the seers display caution now.

Typically, the prophets at the Dept. of Commerce this week set their sights on a \$60-billion year for the construction industry in 1962. Such a showing would boost the value of work put in place by about \$3-billion, or 5%, over the current year.

Itself a record breaker, 1961 is not quite living up to earlier expectations. In its latest measure of over-all activity, Commerce has trimmed \$500-million from the midyear forecast of \$57.8-billion.

Surprisingly, the shortfall is in public construction.

The \$500-million lopped off the 1961 estimate is about the amount by which the outlays of federal, state, and local government programs trail the midyear forecasts. The big lag is work on highways.

And certainly money isn't the problem in highways; funds aplenty have been allocated by the Bureau of Public Roads for this program.

The states themselves seem to be the bottleneck—either through failure of legislators to provide matching funds or of state highway departments to complete necessary plans.

Thus highway construction this year will reach only \$5.7-billion instead of nearly \$6-billion expected earlier. Nevertheless, Commerce looks for a record \$6.1-billion for road work in 1962.

New offices swell commercial total

A star performer in privately financed construction is commercial work. At the start of December, such structures were well ahead of the midyear forecast of the Commerce Dept.

Commercial construction, which has virtually ignored the general swings of the economy in recent years, is pointing for a record this year and

Business outlook Continued

another in 1962. This year's gain will be about 12% while the forecast rise of 4% for next year would carry outlays to \$4.8-billion.

The demand for modern office space—not to say prestige quarters—is sparking the national office building boom.

Formerly conspicuous in New York City, the office boom more recently has spread to other metropolitan centers—though Gotham continues to boast most of the biggest projects.

The upward trend in other private nonresidential buildings is expected to continue with 1962 gains rivaling those of the last two years.

Private hospital and institutional building is slated to move up to \$875-million, an 11% jump over this year's rate. Vigor in this category reflects availability of Hill-Burton federal-aid funds.

Factory building runs behind earlier forecast

Industrial construction has proved disappointing this year, recession hang-overs temporarily braking capital expansion in many industries.

At midyear, Commerce was still betting on a 5% increase over 1960. As it turns out, however, industrial building for 1961 is expected to fall short of \$2.8-billion, a 3% decline from its 1960 level.

Next year, of course, there is improvement in sight—about 2%, the Commerce Dept. figures from present readings. But that would not bring it back up to 1960 dollar levels (with costs higher now).

Explanations for the slowdown on industrial structures are easy to visualize in the light of recent conditions:

Manufacturing capacity remains more than ample in most lines; even the current level of recovery leaves plenty of room at the top.

Cost-cutting pressures and rapidly rising productivity favor outlays for new equipment over new plants (and the promised revision in depreciation schedules tends to intensify this trend).

Modern plants provide better space utilization than the old ones.

And, finally, frequent cyclical swings in recent years encourage conservatism on plant outlays as well as on inventories. This cautious mood is likely to linger yet awhile.

Inventory rise matched by sales, so ratio holds

Inventory policy is, of course, a relative thing. Inventories of factories manufacturing durable goods have been rising since late spring; yet their sales have been going up rapidly, too.

Stocks held by these plants, over-all, were valued at more than \$31.3-billion at last count (seasonally adjusted). That was up by very nearly \$1¼-billion from the low point.

Yet the relation to sales is virtually exactly the same as in June—2.05 times sales in June and 2.04 times in October.

Thus, if inventories were low in June, they remain low now.

Trends in inventory naturally will be contorted, from now till midyear, by durable goods producers' fears of a steel strike.

This means high operations for steel mills next year, of course.

At the same time, it also means something else: a sharply higher flow of imported steel to consuming industries in this country. Mills in Europe are running below capacity and will be offering bargains.

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Kennedy's proposal

Push for free trade

Speech to NAM stresses
plan to drop tariffs, with
help for injured industries

In New York this week, before a large, somewhat skeptical luncheon gathering of the National Assn. of Manufacturers, Pres. Kennedy committed his Administration to fight for a drastic liberalization of U.S. trade policy in 1962. He told NAM's 66th Annual Congress of American Industry that by next June the Reciprocal Trade Agreements Act must be replaced by new and bold legislation so that the U.S. will be able to bargain down the common tariff of the expanding Common Market in Europe.

The Administration's goal, said the President, is not to have the U.S. join the Common Market nor to create an Atlantic free trade area. It is to form a trading partnership between the two great common markets of the free world, ours and Europe's. This way, U.S. exporters will have a chance to expand their sales rather than see them shrink, in the rapidly growing market across the Atlantic.

No quick sale. It's doubtful if Kennedy won any converts among the strong protectionist phalanx within the NAM membership. But he did get a good hearing, perhaps because he didn't suggest such a complete shift toward free trade as did Under Secy. of State George W. Ball early in November.

As Business Week discovered this week in a nationwide survey of industry executives, there is considerable business support for free trade



Pres. Kennedy took a firm line with a skeptical audience at NAM luncheon



Ray R. Eppert, president, Burroughs Corp., endorses trade plan but doesn't think dilemma can be solved "without anybody's getting hurt."



Charles H. Percy, chairman, Bell & Howell Co., points to U.S. encouragement of trading areas, says: "This is not the time—through fear—to withdraw."



Ralph J. Cordiner, GE chairman, is neutral, says "government must make it possible for industry to compete effectively with overseas producers."

with Europe and a widespread recognition that we need some kind of change in tariff policy if only to maintain our bargaining position.

Kennedy's speech was clearly designed to challenge U.S. industry and, at the same time, to calm some of its fears. The challenge came in Kennedy's assertion that, since we must work closely with Western Europe if we are to meet the Communists' pressure, it is industry's responsibility to be "competitive," "export-minded," and "calm." The opportunity, he said, lies in Europe's vast new market and in the prospect that, under a new trade policy, our exports to the European market will increase more than our imports from it.

Assurance. To reassure industry about its fears of government-initiated inflation, Kennedy promised budgetary self-discipline by his Administration and reiterated that he would submit a balanced budget in January. Then, to his audience's delight, he added that in speaking Thursday in Miami at the AFL-CIO convention, he would tell labor that it also "has its responsibility for price stability."

He spoke, too, of adjustment subsidies for companies injured by imports. To the chagrin of some free traders, he said that tariffs could be used to "cushion adjustment."

Overseas operations. For many NAM members, though, the President was far from reassuring on the question of government tax policy toward U.S. operations in Europe. In dealing with the U.S. balance-of-payments problem, the President spoke of the "artificial tax preference" that U.S. investment has en-

joyed in Europe—suggesting that he would press Congress again to prohibit tax deferral on earnings kept abroad. However, he ruled out exchange controls.

Many businessmen will regard this passage of Kennedy's speech as a threat of what he might do if industry does not accept lower tariffs. If that's the case, he may find it an effective whip. Scores of businessmen would prefer to take their chances on freer trade than with punitive taxes on European investments.

Boggs committee. As Kennedy spoke in New York, two Congressional subcommittees in Washington were in the midst of hearings on the trade policy issue. Working openly for free trade is the Subcommittee on Foreign Economic Policy of the Joint Economic Committee, chaired by Hale Boggs (D-La.).

By Wednesday, the Boggs subcommittee had heard several big-name witnesses in support of free trade, including William L. Clayton and Dean Acheson, plus several specialists such as Henry Wallich of Yale and Alfred C. Neal, president of the Committee for Economic Development. Both Wallich and Neal are backing the Administration, but each with a reservation.

Wallich maintained, for example, that under the proposed trade policy, our imports will rise at first considerably faster than our exports and that the government should grant an accelerated depreciated allowance for equipment used to produce for export markets.

Neal, for his part, coupled free trade with free capital movement. His point: "An enlarged Common

Market, without lower tariffs, could act as a powerful magnet to attract U.S. capital into unnecessary and uneconomic investment in Europe. The way to deal with this problem is to reduce the tariffs that are creating the magnetic force, not to restrict the capital movements."

The protectionists, including several industry representatives, have been getting their innings in a series of hearings before a House Labor Subcommittee, headed by Rep. John Dent (D-Pa.). The views expressed parallel some of those picked up by Business Week's survey.

I. Business opinion

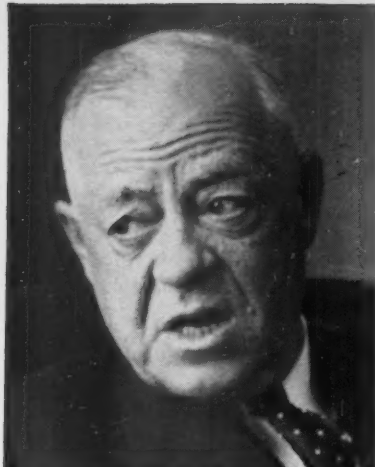
The men Pres. Kennedy addressed Wednesday had already given the idea of freer trade some serious thought. Public rumblings from some business groups had suggested such a proposal would meet a stone wall of opposition. But a Business Week survey of 150 key executives this week turned up a surprising amount of support for the President. Well over 25% say they strongly favor the idea, while a scant 25% voiced outright opposition. The rest are still on the fence, with varying degrees of tilt to one side or the other.

The in-between group, of course, may realign itself as the battle heats up. Even a few men who spoke of their personal support for Kennedy said they might wind up opposing his plan, out of consideration for their customers or for other companies in their industry.

Moreover, the latent support that Business Week found for the new trade plan may carry less weight with Congress than the hard-core



Carl A. Gerstacker, chairman of Dow Chemical Co. and head of powerful trade group, rejects plan, says officials "want to export the jobs of Americans."



Melvin H. Baker, chairman, National Gypsum Co., bemoans present foreign competition: "If tariffs are further reduced, it will be even worse."

steel seems adverse to this country," says Inland Steel Co.'s Pres. John F. Smith, Jr. "Yet I doubt that protectionism is what our industry needs to put it in a position to compete with European and Japanese mills. We must compete by doing better than the other fellow, and it would not be good training for that fight to keep on operating behind a tariff wall."

W. Richard Jeeves, vice-president of overseas operations for Parke, Davis & Co. and chairman of an NAM foreign trade committee, seems to agree: "In the area of productivity and costs, we've become too complacent in this country."

IV. Special relief

Many companies that aren't committing themselves yet will doubtless be influenced by how the government proposes to go about giving "exceptional treatment" to "a limited number of exceptional cases." Because of the votes it commands in Congress, the cotton textile industry is slated to be in this group.

While NAM hasn't announced its position, Jeeves may be expressing a general view when he says: "No doubt the program will provoke organized and vocal opposition, obviously from people whose ox is being gored. Some sort of relief compensation for dislocated industries and people is necessary."

Quite possibly, 1962 will go down as the Year of the Gored Ox, rather than the Year of Decision, as the free-traders call it. It is obvious that many uncommitted industries are going to expect some salve for their oxen as the price of their ultimate support of Kennedy.

What kind of help? In his mid-week speech, Kennedy referred to an adjustment subsidy of some type and said he would expound further in his next day's speech to the AFL-CIO. An adjustment program for shifting companies, hurt by imports, into new products and for retraining labor is one price Kennedy has to pay to get labor support. Some businessmen go along, but many see this as the road to government intervention in business decisions.

There's still a lot of small print that executives want to read. Many, for example, balk at the idea that Japan may be included. The crux of the matter for some businessmen is the extent of reciprocity—will foreigners set tariffs as low as America's, industry by industry? Some executives feel the U.S. will be played for a sucker, especially since European trade barriers go far beyond mere tariffs.

opposition, which has been more active in pressuring congressmen. With many congressmen, the tariff still is "a local issue."

Lineup by industry. On the basis of the Business Week survey, several industries so far seem to be generally on Kennedy's side in backing free trade: auto manufacturers, business machine makers, some lines of machinery and appliance manufacture, electronics, and the big international oil companies.

Flat opposition seems to center around the big chemical companies, especially as they speak through the powerful Synthetic & Organic Chemical Manufacturers Assn.; copper and brass, rubber, glass, cement, independent oil producers, and some smaller industries such as watches and pottery that perpetually demand high tariff protection.

Those in the middle at this point—awaiting details and a study of the effects of the plan on themselves—include steel and electrical equipment. Awaiting word about what will be done for "special" cases are such big industries as textiles, aluminum, and machine tools.

II. The wage cry

Chmn. Ralph J. Cordiner (picture) of General Electric Co. this week made a statement that may express the stand of the electrical equipment industry and is close to the apparent position of big steel companies. If the U. S. reduces its tariff protection, he said, it must help domestic companies to compete. It must adopt policies, he said, "that will not feed inflation, that will encourage higher productivity, and that will reduce

the costs of making and selling U. S. products."

This sounded like the core of a position from which major industries could appeal to the government to help hold labor costs down. Differentials between U. S. and foreign wage scales already are the rallying point for protectionists. They cite hair-raising statistics: A tire maker in Akron, for example, gets \$4 an hour, compared with \$1.20 in France and 65¢ in Holland.

If U. S. tariffs tumble, the protectionists say, U. S. business won't be able to compete even on its home ground. What's needed is a tariff high enough "to equalize wage differentials," says Carl A. Gerstacker (picture), president of the Synthetic & Organic Chemical Manufacturers Assn. and chairman of Dow Chemical Co.

III. Some will be hurt

Executives who favor free trade agree that some people will be hurt, but they argue that U. S. industry as a whole will be stronger and more efficient in the long run.

"Not all industries can compete on an equal footing," says Nixon-backer Charles H. Percy (picture), chairman of Bell & Howell Co. "But then, you couldn't have expected a buggy-whip maker to cherish the growth of the auto industry." Our national policy has been to encourage the establishment of larger free trading areas, he notes.

Even in the steel industry, which has suffered lately from foreign imports, you can hear a surprising voice of support for free trade.

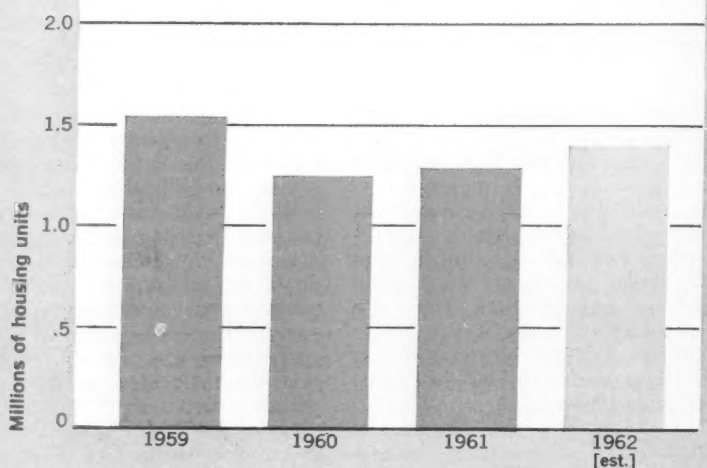
"Short-range, the trend in world

'62

The shape of

One of a series of analyses of key elements in next year's business situation

For 1962, starts will be up... maybe



Data: Bureau of the Census; Dept. of Commerce estimate

© Business Week

Housing hopes— but starts to worry

Forecasts are for 8% gain in starts in 1962, but builders, despite some bullishness and even a boom or two, begin to think they'll be lucky to hold 1961 level

For weeks now, a chorus of housing experts has been saying that builders will start 1.4-million or so apartments and houses in 1962. That would put housing ahead of 1961 by about 100,000 units—a neat 8%.

It's the sort of forecasting that usually is disputed only by a few

mavericks, since it avoids extremes and nearly always rests on research by such authoritative sources as the Dept. of Commerce.

Yet last week, despite a Commerce statement billing 1962 as possibly the second-best year on record—next to 1959—a wave of opinion

began to spread among builders and some housing experts that housing will be lucky to break even next year.

Focus. The sentiment showed up at a convention in Chicago of the National Assn. of Home Builders. Dr. Kurt F. Flexner, deputy manager of the mortgage finance committee of the American Bankers Assn., told the builders that starts in 1962 will range between 1.25-million and 1.3-million.

Joseph P. McMurray, chairman of the Federal Home Loan Bank Board—though agreeing with the Commerce Dept. forecast—warned that the next three years will be critical because of a low family formation rate. Said McMurray: "It will take all of our collective imagination and economic statesmanship to maintain our present level of housing starts."

Fears. Builders apparently were getting worried about next year long before they heard the speeches. The association, in a survey just released, had asked its members to rate their markets. Only 2% replied "strong"; fully 41% answered "uncertain," 34% moderate to strong, 23% soft. More than half the builders labeling the market uncertain blamed saturation.

The opinions emerging at the NAHB convention got more support when Business Week reporters last week met and talked with builders, mortgage lenders, and economists in cities from Los Angeles to Boston, Miami to Seattle.

Milwaukee builders hope they "can stop showing a decrease." In Chicago James C. Downs, Jr., chairman of the Real Estate Research Corp., says flatly, "Starts—both apartments and homes—will be off in 1962." A St. Louis lender sees starts reaching 1.4-million "only if the government intends to prime them through easier loans."

Hopes. The view in most cities is not nearly so bearish. Typical are Seattle builders, who expect "a small improvement next year." Florida mortgage lenders look for a "slight increase." In San Francisco and surrounding counties volume is expected to be about equal to 1961.

Some of the most bullish estimates come from suburban New York builders and lenders, who expect a 3% to 6% gain in starts, depending on who is talking. In Buffalo there's even a forecast of a 4% to 8% increase in one- and two-family homes.

Business Week reporters found a boom or two, the result of local conditions. Dallas residents, discovering that apartment living has its comforts, have flocked into them in such numbers that apartment building has made up for a slight sag in

single homes. As a result, builders expect as much as a 10% over-all increase in starts next year.

Houston, too, is booming with activity and expectations. Humble Oil & Refining Co., with a new headquarters building, has moved in 400 families. Gulf Oil Corp., building a marketing headquarters, will bring in 100 more. The coming moon-shot laboratory of the National Aeronautics & Space Administration will add both with 1,600 new families.

Upgrading. Why the "uncertain" feeling about 1962 among builders and lenders? For one thing, the biggest part of sales comes from people upgrading to more expensive houses. In Atlanta, a job promotion and a need to entertain spur a family to buy a larger house. A major builder of middle-class homes in Cincinnati calls the replacement market "one of the strongest." But this volume is not so large, the selling job greater.

Second, third, even fourth-time buyers demand more in quality and space—sometimes want such frills as the central vacuum cleaning systems of a Denver builder. At Los Angeles, builders say they have "an eye for architecture now, don't want part ranch, part Georgian." In Philadelphia, a powder room downstairs helps sell a house.

Gripes. In many places around the U. S., builders wait for the return of the young family to the housing market—in the mid-1960s when those born during World War II marry.

But many say bitterly that today's young families are being kept out of the market by lack of land at "reasonable cost" and by "unrealistic" zoning laws. On Long Island the cost of a plot used to be 12% of a home's selling price; now it's 25% to 28%. Some communities require two to four acres of land for each house. Builders complain angrily they have to build better roads than the community builds. All this pushes prices up so "a guy making \$125 a week," according to a Milwaukee builder, "can't qualify for a \$15,000 home." San Francisco builders say steep land costs are a main drag on the market. In Los Angeles, Leonard R. Lockhart, vice-president of the Home Savings & Loan Assn., notes a fall-off in tract loans.

Bitter. The frustration over land costs makes builders bitter because, ironically, money is easy and lenders have ample supplies at rates usually between 5½% and 6%. Discounting is light, too—two or three points.

This is likely to change next year, however, since commercial banks may now pay depositors up to 4% (page 34). This will boost charges

to borrowers, and siphon money away from savings and loan companies, important lenders of mortgage money, unless they boost rates to depositors, too.

Shakeout. Builders are edgy, too, over the large-scale shakeout among themselves. About 20% of Buffalo's builders went out of business this year. St. Louis has a pickup in builder bankruptcies.

Some builders have expanded, or switched to remodeling. Castle Pre-Plant Homes, Inc., in Detroit switched to shell homes this year, sold 80. Others build for special markets—like the Texas builder with a 250,000-lb. concrete beach home guaranteed to withstand hurricanes.

Those coming through the shakeout are trim businesses, pretty well satisfied—even a bit smug. A Los Angeles survivor says, "Those building quantity rather than quality have

suffered. Now they have to stay home from the race track and concentrate on business."

Brightest. Probably the brightest side of the housing picture is still apartment building [BW Aug. 27 '60, p127]. In Buffalo, \$175-a-month units are being snapped up. Philadelphia apartment builders say city and suburbs are still underbuilt. In New York, though, it takes a bonus of three months' free occupancy to rent some luxury apartments (\$60 a room and up); middle income units (\$40 a room or so) are gone before the building is finished.

In Chicago, there is a "growing softness in apartments" and the vacancy rate has climbed to 7%.

Nevertheless, recent surveys, including one by the Dept. of Commerce, show the over-all national rental vacancy rate dropping for the first time in over a year.



Diesel car will offer passenger service to Baltimore commuters in experiment to determine whether rail traffic can help solve city's transportation problems.

Commuter bus line tries adding rails

In 1950 the Baltimore & Annapolis RR Co. abandoned passenger service by rail and substituted buses. This week the 20-mile freight line running between Baltimore and the state capital sought to reverse the trend. Noting the problem of clogged highways for motorists and buses, it resumed passenger service for a three-week trial period.

During the experiment, the train, which will run between the Baltimore & Ohio's Camden Station and suburban Harundale, will compete with the company's buses. The rail trip on the nine-mile run will be slightly faster, but will cost 59¢—10¢ more.

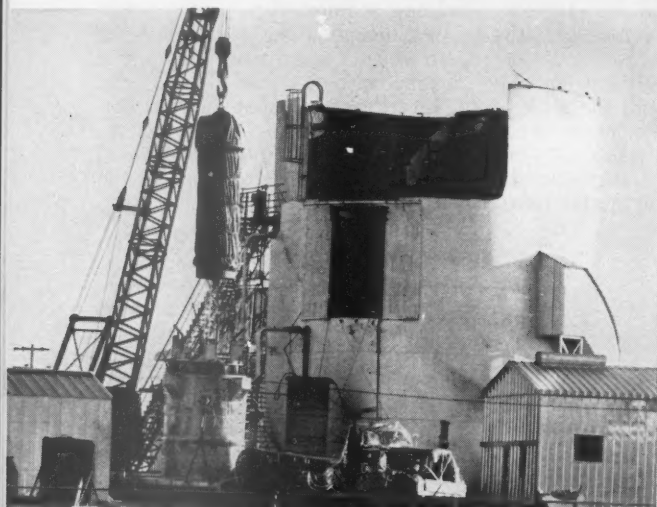
The train's first trip was disappointing. Only eight passengers showed up—despite free coffee.



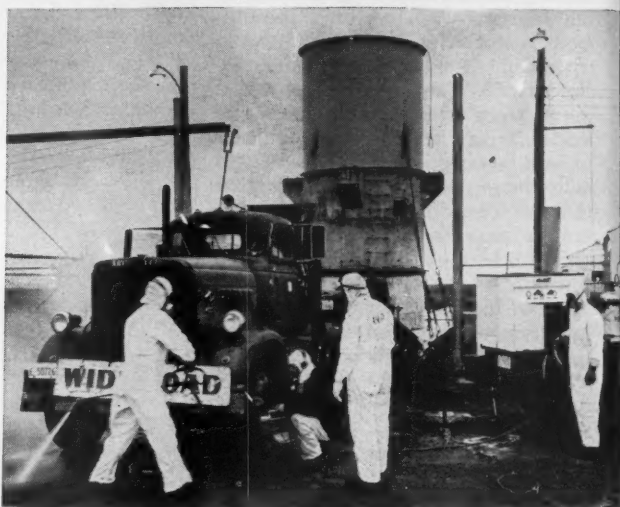
James Easter, B&A president, says rapid transit may be part of answer.



Convoy across Idaho desert was organized around security cars (red light on top) before and behind reactor



Crane swings reactor to concrete cask. Concrete cut radiation at 10 ft. from about 100 roentgens to 50 milliroentgens.



Next morning, workmen in protective suits decontaminate truck with hot water. Man uses Geiger counter on tire.

Hot reactor hits the road

The reactor that blew up last January, killing three workmen, is moved 40 mi. to a shop equipped with mechanical hands to take it apart. Move didn't even stop traffic

One midday last week, a convoy of 11 vehicles rolled slowly through the yellow-brown desert of southeastern Idaho (top picture). In the middle was a low-boy trailer truck carrying what looked like an oversized boiler or an elongated septic tank but what was in fact a dangerously "hot" atomic reactor.

This was the SL-1 (Stationary Low Power Reactor No. 1) that got out of control last January, killing three crewmen [BW Jan. 7 '61, p28]. It was being hauled 40 mi. through the Atomic Energy Commission's Idaho testing site to a huge "hot shop" (pictures), where mechanical hands can dismantle it, as a step in deter-

mining precisely what happened.

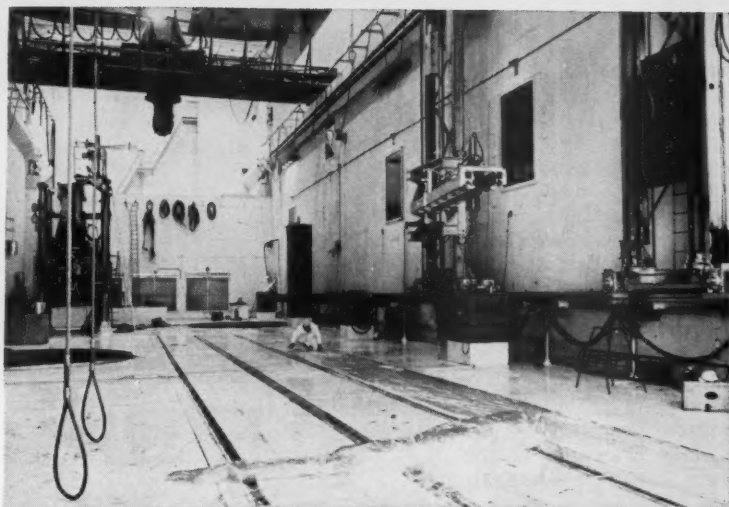
Decontamination. First, the building that housed the runaway reactor had to be decontaminated. This was a painfully slow process. Even last week, with radiation levels down 90% from those immediately after the accident, workmen could stay in the building only a short time. Work that one man could normally do had to be done in shifts by many. Even AEC office workers from Idaho Falls, 45 mi. away, were pressed into manning these shifts.

In August, AEC decided to move the reactor to a hot cell formerly used in the nuclear-aircraft project, now abandoned. In this shop, a

mighty array of remote manipulators can be operated from behind 6-ft.-thick walls of concrete and glass to get to the heart of the reactor.

Most of the evidence collected so far by General Electric Co., under a \$1-million contract from AEC, suggests that the blast was triggered by a sudden movement of the central control rod, probably when it stuck and a crewman tried to free it [BW May 6 '61, p53]. The accident was the first of its kind in the history of U. S. reactors. No other reactor in the U. S. today has the same arrangement of control rods.

On the move. First, the roof of the three-story reactor building was



At destination, man spreads plastic sheeting to reduce contamination of truck from radiation lingering in "hot shop" from earlier use.



Truck backs reactor into hot shop, which is equipped with remote manipulators.

taken off, and half of the wall of the top floor was cut away (the wall was made of $\frac{1}{4}$ -in. steel). A 7-ft. diameter hole was cut in the second floor, and a crane reached in to pick up the reactor: 13 tons, $16\frac{1}{2}$ ft. tall, $4\frac{1}{2}$ ft. diameter.

As it emerged through the hole, the reactor was shrouded in a plastic bag to screen radiation. It was swung around and dropped into a waiting concrete cask on the flatbed trailer for an overnight wait.

GE workers went through the whole move first with a concrete pipe playing the role of the reactor. At the last moment, the schedule was pushed up a day because of a Weather Bureau warning of a severe storm ahead. The storm never arrived, though high winds whipped across the desert on the day the convoy moved. The trip was completed in an uneventful $3\frac{1}{2}$ hours, without disrupting the sparse midday traffic. Half an hour after its arrival, the reactor had been unloaded in the hot shop.

Even with all the mechanical aids, AEC says it will be at least three months before dismantling and analysis can be completed.



From one of the consoles that operate the mechanical hands, man watches a workman preparing to unload the reactor. The window glass is 6 ft. thick.



Elmer W. Engstrom

Sudden switch at RCA

Engstrom takes over in quick shift as John L. Burns bows out after five years

Radio Corp. of America directors last Friday picked a new president: Elmer W. Engstrom (picture), senior executive vice-president since 1955 and an employee since 1930. John L. Burns, RCA president for the past five years, had resigned.

The sudden shift, announced by Chmn. David Sarnoff after a regular board meeting, provoked questions that will doubtless be raised at the next stockholders' meeting:

Was Burns' resignation requested? Was he, in effect, fired because he was held responsible for RCA's as yet unprofitable venture into electronic computers and data-processing equipment? Or did he really resign for personal reasons? And in what measure can the change be understood as the replacement of a professional manager, an "outsider," and a one-time consultant by an engineer-scientist, a company man of long seniority? Is the RCA

presidency a short-term proposition at best? Is RCA giving up its attempt to compete in computers?

Few answers. Early this week, few answers were being given by anyone. One thing was certain: Gen. Sarnoff remained RCA's chief executive—he's been that for the last 31 years. But he was "on a plane, unavailable for comment." Burns was "on a boat" for a couple of weeks, "thinking things over." And Engstrom was "on his way" out to the company's plants "to take a good look at things."

Meanwhile, a look at the record answers some of the speculation. Top management's tenure of office at RCA has not been particularly unstable or short-lived. Engstrom will be only the company's sixth president since its founding in 1919.

Engstrom's research contributions in the electronics field—radio, television, radar—have been acknowledged by universities and engineering societies here and abroad. An RCA spokesman says he became "No. 3 man" in 1955.

Burns' future. The No. 2 man, Burns, for all his 15 years as a management consultant with Booz, Allen & Hamilton, was also scientifically trained. Like Engstrom, he took his bachelor's degree in electrical engineering.

Burns says that "my relationship with RCA will continue on a special assignment basis." The extent of this may well depend upon the nature of those personal reasons that caused him to resign. And a company source states flatly that the reasons were personal: "There was no dispute with the General."

As to the possibility that he might return to his position in Booz, Allen—he was senior partner when he left in 1957—former colleagues won't comment. RCA is still a client of the firm.

Computers. Speculation centers, then, upon the one aspect of RCA that is closely identified with Burns' interests and is also known to be losing money. RCA concedes "we're taking our peak investment losses this year" in computers but insists this is not surprising and that the picture soon will improve.

RCA declares it will continue in the computer business but that now "the main thrust will be toward profit improvement." RCA's after-tax profits last year came to \$35.1-million, down 13% from 1959 though sales rose 7% to a record high near \$1.5-billion. The company's net earnings of \$23.8-million through September this year again registered a decline from the comparable period last year, also against a rise in sales.



Displays include the latest in bindings, boots, poles, and other equipment. Some 30,000 skiers browsed at show.



Well-dressed skier wears sleeker togs such as the figure-hugging stretch suit. After-ski garb is more colorful this year.



Pros at Winter Sport Show demonstrate Ski Dek, a mechanical ski run whose speed and angle can be adjusted to simulate a snow-covered mountain slope.

Winter wonderland

Skiers preview new fads and fashions

Big features at New York show include a mechanical snow-less Ski Dek for indoor skiing and Short-ee skis that are lighter, easier to maneuver

Skiers are getting that far-away look in anticipation of the season—and so are ski entrepreneurs who expect it will bring them \$500-million.

Ski equipment alone will account for \$50-million, about 31% over last season. The big "snow states" also have been caught up in the boom. Michigan is adding 10 new areas; Colorado, six; and even North Carolina is getting into the act with two new areas.

This week, 30,000 of the nation's 2.2-million skiers converged on New York's 71st Infantry Armory to attend the National Winter Sports Show (pictures), which signals the official start of the ski season.

Appetizers. What they saw was enough to whet the appetite of even a lukewarm skier—if there is such a thing. But the two items that attracted most interest—a mechanical Ski Dek and the controversial Short-ee skis—are not new. The

news is in how these revolutionary developments are catching on in the skiing world.

Ski Dek, a mechanical ski slope set up like a treadmill, provided indoor skiing at the show—sans snow. The speed of the moving white carpet and the angle of the slope can be adjusted to simulate what you would get on, say, a Vermont run. Pros competed in races on the moving slope, and danced the waltz and Twist on skis.

The Ski Dek was invented by Ray Hall, an Aspen, Colo., ski instructor, and recently taken over by Schine Enterprises, Inc., hotel and theater owners. Schine plans to franchise Ski Dek all over the country, and foresees huge ski centers—similar to bowling alleys—equipped with a minimum of 10 Ski Deks. C. David Schine, president, says skiing will then be a year-round sport. The first one is going up in Buffalo in January.



Short skis appeal to adults who are learning or who just want to have fun.

Despite ski purists' sentiments against the Short-ee skis that ski pro Clif Taylor introduced three years ago, several leading manufacturers had short skis on display at the show. About a dozen companies are making them, and most stores will be carrying a short-ski line this season.

These skis come in a wide variety of sizes. For example, Head Ski Co.'s short-ski line runs from 4½ ft. to 6 ft. (\$98.50), while Clif Taylor's short skis come in 33-in., 4-ft., and 5-ft. sizes (\$19.95-\$34.95). Advantages are that they are lighter and easier to maneuver.

Sleeker garb. But wherever the skier is, and whatever he's skiing on, he is sure to be fashionably attired. Fashions at the show emphasized the trend toward sleeker ski clothing—one-piece figure-hugging stretch suits for women, and new stretch knickers for men and women.

Fed gives a shove to interest rates

Allowing commercial banks to pay more on deposits means pressure on lending rates, too—though policy of money ease remains. Aim is to stem outflow of gold

The nation's money managers—with the tacit approval of the Administration—were pursuing two seemingly contradictory objectives this week.

On one hand, they continued their policy of monetary ease. The Fed was keeping the nation's banking system amply supplied with lendable funds in order to stimulate economic growth. On the other hand, the Fed moved to hike the interest rate structure once again in order to hold down the outflow of gold.

The Fed did this by relaxing its Regulation Q, which sets the maximum interest rates that commercial banks are allowed to pay on corporate time deposits and personal savings accounts. The new rate ceiling, to take effect Jan. 1, is 3½% on funds left on deposit for at least six months, and 4% for deposits held for more than a year. Previously the ceiling was a flat 3%.

These higher rates will mean a substantial boost in bank operating costs. This, in turn, will put pressure on the banks to increase their lending rates—and yield on investments—so that they can maintain their profit margins.

In essence, the Fed's action will tend to increase the cost of credit without affecting its availability, a trick classical economic theory would consider impossible.

Foreign funds. The Fed's move, which came as something of a surprise, was made over the long-standing opposition of many smaller commercial banks—and some big ones as well. They feel that any increase in the interest they have to pay will put a big crimp in earnings.

But the Fed is clearly determined to help New York's big banks attract foreign funds. In pointing out that the new move will permit banks to "compete more vigorously" for foreign deposits, the Fed implied that it would put through another hike if that became necessary.

Effects at home. But the rise in the

ceiling also has profound domestic implications:

In the money market, short-term rates stiffened as government bond dealers took the position that there would be more competition for the supply of investable funds.

Big city banks have plunged heavily into the business of selling negotiable certificates of deposit to corporations [*BW* May 20 '61, p138]. This CD program was an immediate success, pulling in well over \$2-billion in deposits. Recently, though, CD funds have been moving out of the banks because open market rates have climbed higher than the rates banks have been allowed to pay.

In the battle for personal savings, the effect was to put commercial banks in a better position to compete with both mutual savings banks and savings and loan associations. Their higher rates have drawn funds out of the banks.

This week, in fact, Chase Manhattan Bank, No. 1 in New York and No. 2 in the nation, announced it will boost its savings rate to 3½% as soon as the new ceiling takes effect. Many smaller banks—in Texas, Maryland, Illinois—announced hikes to 4%.

The prospect of sharper competition among savings institutions was reflected in the stock market, where S&L shares, a recent investment favorite, sold off sharply. Bank stocks generally showed improvement, although shares of some California banks, where savings deposits account for a large portion of total deposits, were hit.

Rate war? Although the competitive position of the commercial banks has improved, the Fed's action could touch off a rate war. Neither S&Ls nor savings banks are likely to stand by and let the commercial banks drain funds from them.

In California, the major S&Ls are fully prepared to increase their rate from 4½% to 5%. They're holding back to see what the commercial

banks do, particularly the giant Bank of America, which has over 50% of its deposits in savings. A rise would be expensive to the B of A, so it hopes to avoid an immediate increase.

While the S&Ls can afford a hike—mortgage rates in the Los Angeles area are close to 7% and construction loans yield over 10%—a higher savings rate would inevitably put pressure on earnings and lead to still higher lending rates.

Similarly, in New York, where mutuals recently got permission to boost their savings rate [*BW* Nov. 11 '61, p143], an increase to 4% by banks would not be taken lightly. The amounts involved are substantial: Savings bank deposits in New York are over \$22-billion, and the commercial banks have \$5.3-billion.

Market repercussions. In the open market, where the banks are competing for foreign funds, they are bound to have an advantage—just how big isn't clear.

Some felt that the Fed's failure to change the ceiling on short-term time deposits—1% up to 90 days, 2½% from 90 to 180 days—was deliberate, because it means that the banks will not be competing directly against the Treasury's bill market.

But the change in the ceiling means that when loan demand picks up, then the banks will be pulling funds out of the money market, and into commercial loans. This should mean a smaller pool of short-term funds available for investment at a time when credit demands are rising anyway, and that would accentuate the rise in short-term rates.

Foreign worries. Important as the domestic money market is, it's the foreign sphere that has the Fed worried. The deficit in the U.S. balance of payments has been going up, which means that foreign holdings of U.S. dollars have been rising.

Clearly, there's a limit to how long any foreign dollar holders will keep on building up their deposits and short-term investments in the U.S.—unless we do something to make it profitable for them to do so. The Fed recognizes the problem, and this was a big factor in its decision.

The major banks have been quick to grasp the opportunity. Several New York banks, for example, plan to quote the same rates for longer-term corporate time deposits both in New York and in their London branches, which up to now had been paying a higher rate. The avowed intention is to try to get back some of the "Eurodollar" money (dollar deposits in foreign banks or foreign branches of U.S. banks) that shifted to Europe for higher yields.

**"I like a man
who's there
when he's
needed"**

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Wm. Joshua Barney, Jr., left, and Fred Weller inspect work in progress at another Barney construction project, New York's new thirteen million dollar bus terminal.

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Canada's trade winds shifting

Ottawa tries for a new tack in face of British entry into Common Market and prospect of a higher tariff wall against Canadian products in Western Europe

Last summer Prime Minister Macmillan announced his intention to lead Britain into the Common Market, officially known as the European Economic Community (EEC). Ever since, Canada has been brooding over how the move will affect its position as one of the world's top trading nations.

Much of this position has stemmed from the trade preference Canada has enjoyed in Britain as a member of the Commonwealth. If Britain teams up with EEC, this preference will undoubtedly be lost. So Canada wants to know whether Britain will try to offset this loss by wangling concessions for it in the enlarged EEC.

This question is vital to Canadian business. And it's a hot political issue for Prime Minister Diefenbaker and his Progressive Conservative government, which has been pushing hard to reduce Canada's economic dependence on the U.S. by boosting trade with Europe.

Bad news. Some disturbing answers to the question came last week with the leak of a secret speech outlining Britain's proposed terms for entry into EEC. The speech—presented at Paris by Lord Privy Seal Edward Heath, Britain's chief negotiator at the preliminary merger talks—recommended treatment of Commonwealth imports that fell far short of Canadian desires.

But Ottawa did see one bright spot. Heath's speech stirred the British Parliament into a wave of criticism of Macmillan's terms for signing up with EEC. As a result, Canada has been able for the first time to drum up real sympathy in Britain for its trade problems.

Problems multiply. Canada's trade would be due for a severe blow from EEC even if Britain weren't planning to join. Most Canadian goods now entering Europe enjoy "most favored nation" treatment. This will disappear as EEC members raise a common tariff wall, and drop the tariff barriers among themselves.

British entry into EEC would compound Canada's disadvantage. Today, more than 95% of Canada's ex-

ports to Britain—worth \$915-million in 1960—enter completely duty-free. If Britain follows EEC tariff policy, only around 25% would.

All this dims the one glow in the Canadian economy: booming trade with Britain and Western Europe. This has helped offset weak demand at home and relatively static trade with the U.S. since 1957.

Political impact. The prospect of diminished trade with Europe is a special political worry for the Canadian government. One of the main planks that carried Diefenbaker to power in the last election was a pledge to turn Canadian trade away from the U.S. and toward Europe, particularly Britain.

Now the British move to EEC has undermined this position just when a general election seems to be in the offing. The government faces the task of constructing a new platform. The fact is that Canada must find a new place in the constellation of world trade.

Not firm enough. From Canada's viewpoint, the trouble is that Heath indicated Britain would accept EEC's common external tariffs—and then showed a noticeable lack of urgency in asking special concessions for Canadian products. He did request free entry into EEC countries for five commodities that loom large in Canada's trade with Europe: aluminum, wood pulp, newsprint, lead, and zinc. However, he added, these exemptions may not be regarded as "compatible with the development of the Common Market"; so he was "willing to discuss ways of reconciling the two positions."

Worst of all, from Ottawa's angle, Heath seemed unwilling to fight to exempt Canadian manufactured goods from the tariff wall. Canadians have been counting on growing exports of manufactures to play a major role in stimulating economic growth over the next decade.

Alternatives. Canada must now take steps to defend its trade position. The trouble is that none of the alternatives that are open seems to offer a clearcut continuation of

both economic and political appeal.

Economically, the most advantageous course would be to go along with U.S. efforts to negotiate lower EEC external tariffs—now under way at the GATT sessions in Geneva [BW Dec. 2'61, p94]. But it's a cold fact of political life in Canada that the party in power doesn't dare seem to be scrambling along behind the U.S. Even so, the Diefenbaker government may be forced into this position.

Joining up, too? Another alternative would be to seek "associate" membership in EEC, without any political commitments. This course will probably be followed by Europe's political neutrals—Sweden, Switzerland, and Austria—and it has considerable support in Canada, where approval has come from spokesmen for the opposition Liberal and New Democratic Parties.

There is controversy, though, over whether such membership would actually be open to Canada. The Treaty of Rome, which set up EEC, forbids non-European countries to join unless they are dependencies of European nations. And Canada is completely self-governing. However, some think the treaty could be interpreted so as to let Canada in.

But the debate may be academic. For associate membership, a nation must be unanimously accepted. And there is some doubt whether either de Gaulle or Adenauer would welcome Canada. Both see EEC as an instrument for forging Europe into a political as well as an economic entity.

Ray of hope. There's hope for Canada, though, in the furor stirred up in Britain by news of Heath's terms. In the British Parliament, both the Labor opposition and backbench Conservatives voiced reservations on the Heath proposal. These reservations may lead to a tougher British fight for the special concessions Canada wants from EEC. No matter what the final terms, Britain's entry into EEC will hurt Canada. But the Parliamentary uproar may mean that it won't hurt quite so much.

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A true story

Tucked away in his tool-kit was a dream

In September, 1923, George K. arrived in the United States from Sweden. He was eighteen years old, with little in his pockets but a great deal on his mind. He dreamed of success, and he was willing to work hard to achieve it.

George K.'s first American job was in New York, as an apprentice carpenter. Within a year, he realized there would be more opportunity in a place not so crowded with immigrants like himself. He came to Chicago, taking a job with a contractor working on one of the city's hotels. The next years saw him rise to general superintendent for a company handling several major contracts.

Then, in 1938, George K. took the big step. He and a friend organized

their own construction company, and by 1940 had won their first million-dollar contract.

In 1943 came a period of reorganization, and George K. came to The First National Bank of Chicago. His hard work, integrity and leadership convinced our Division J officers that George K. had the potential to become an outstanding general contractor. Modest credit accommodations expanded steadily into a multi-million dollar line as his business developed and assumed a leading position in the field. Today George K.'s company is approaching the half-billion dollar mark in completed contracts.

The company's success, of course is due to George K.'s leadership. But

he will tell you that The First National Bank of Chicago has been—and continues to be—of invaluable assistance. That's because our men in Division J, which serves the construction field, really understand the problems and the needs of the industry.

The same is true of the officers in our other nine Commercial Divisions, each of which serves one group of industries exclusively. These men are specialists, constantly studying and interpreting business trends, as well as lending money. So, when you talk to them, you're sure of obtaining a complete banking service—whether you build homes, sell clothing or process oil. Why not call or write The First National Bank of Chicago today.



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MEMBER F.D.I.C.

Five companies, eight officials accused of price fix plot in brazing alloys

Five companies, four of which manufacture brazing alloys, and eight of their officials were indicted this week by a federal grand jury in New York on charges of conspiracy to fix prices. Specifically, the indictment charges that the defendants held several meetings, beginning in 1955, to fix prices and cut off supplies from distributors who refused to adhere to the prices.

Those indicted were: Handy & Harman, of New York, and two of its officials; Engelhard Industries, Inc., of Newark, N. J., and three vice-presidents; Engelhard Hanovia, Inc., which owns stock control of Engelhard Industries; United Wire & Supply Corp., of Providence, and its sales manager; Westinghouse Electric Corp., and two officials of its Westing-Arc. Dept.

Contract truckers rejoice as court upsets ICC rule favoring common carriers

Contract motor carriers, who provide tailored service for shippers, are expecting hefty competitive gains in the wake of a Supreme Court ruling that upset a long-standing Interstate Commerce policy that favored common carriers.

ICC has limited contract truckers to specialized services that the common carriers are unwilling or unable to provide. Thus, in deciding contract vs. common trucker contests, ICC has made adequacy of existing common carriage the determining factor, even if the shippers preferred contract service.

Now the Supreme Court says that ICC erred, that the "distinct need" of the shipper must be weighed against the adequacy of existing service.

CAB says Hughes Tool can give 'interim' aid to Northeast Airlines

Confusion mounted this week over the future of Northeast Airlines as the Civil Aeronautics Board granted "interim approval" for Hughes Tool Co. to resume emergency financial aid to the airlines.

The question is: Will Howard Hughes, sole owner of Toolco, resume the financial transfusion? His attorney has made it clear that Hughes wants to save Northeast only if he can acquire control of it from Atlas Corp. Hughes wants a quick ruling on this from CAB, but the agency is in no hurry to give one.

The industry believes that Hughes wants to acquire Northeast, recapture control of Trans World Airlines, and then merge the two. CAB is believed to prefer to find a different merger partner for the ailing Northeast, but might yield to Hughes rather than let the line go into receivership or under subsidy. The airline now owes \$12-million in trade accounts, and needs \$800,000

by yearend to tide it over till its New York-Florida vacation traffic picks up.

Aside from this, Eastern and National airlines are seeking to block the board-approved aid plan.

Electric equipment makers sued by 44 Eastern utilities

Forty-four electric utility companies serving 14 Eastern states this week filed treble damage suits against 21 electric equipment manufacturers in federal court in New York. The defendant companies had previously pleaded guilty or no contest to federal charges of price fixing and bid rigging.

Since the Justice Dept. cases ended, more than 100 suits have been filed against the manufacturers, accusing them of overcharging customers. Defendants include General Electric, Westinghouse Electric, and Allis-Chalmers Mfg. Co. GE and Westinghouse have already indicated they will fight all suits.

Administration defers decision on oil imports for at least six months

The Kennedy Administration has put off a decision on a new oil import program for at least six months. After weeks of inter-departmental arguing over Interior's proposal to cut crude imports by at least 50,000 bbl. per day [BW Nov.4'61,p38], Kennedy last week referred the problem to the Office of Emergency Planning.

Significantly, the President said the study will take in more than just the "welfare of the domestic petroleum industries," reaching out to consider "economic growth" and "increasing our strength to compete in the free world."

Postponement of the issue means that oil is certain to be a major issue in the fight over a liberalized trade bill next year.

Du Pont and affiliate sue Von Kohorn, charge 'misappropriation' of trade secrets

Du Pont and its Argentine affiliate, Ducilo, this week filed suit against Von Kohorn International Corp., of White Plains, N. Y., charging "unfair competition and misappropriation of trade secrets."

Du Pont charged that "the defendants hired away 15 or more employees of du Pont and Ducilo, induced them to disclose details of secret processes, and used this information in plants that compete with du Pont and Ducilo."

Among the secrets allegedly involved are the design, construction, and operation of plants that produce cellophane, nylon, Dacron polyester fiber, and Mylar polyester film.

Washington outlook **BW**

December 9, 1961

With usual ifs— budget is 'balanced'

The key decisions on next year's budget have been made.

It will show a balance, on paper.

That is, the budget document that Pres. Kennedy will send to Congress next month will show spending and receipts virtually equal.

But it is for the 12-month period beginning next July 1 and running through June 30, 1963. Its accuracy depends on what business does next year and what Congress does by way of legislation. For example, balance depends on whether Congress approves higher postal rates—which it refused to do this year.

In the traditional, administrative budget, receipts will be estimated around \$92-billion more or less, a rise of about \$10-billion above what is expected this year. Better business is the chief reason for the rise.

On Kennedy's orders, spending plans will be held to receipts. This allows a rise of \$3-billion or so in outlays, about half the jump that is occurring this year.

Easing of Berlin crisis helps outlook

Kennedy gets a substantial break.

The lessening of tension in Berlin allows him to hold military spending about \$1-billion lower than seemed likely a few weeks ago.

Defense outlays will rise at least \$2-billion, leaving something in the neighborhood of a \$1-billion rise to be spread around among civilian programs.

For business: budget means less stimulation

For business, the most direct impact of federal operations is shown not in the administrative budget but in the national income and product accounts of the Commerce Dept.—the accounts that estimate gross national product.

The income and product figures include the federal trust funds and therefore are larger than the administrative budget. They include tax receipts when incurred rather than when paid, and therefore are more timely.

The income and product estimates for the next fiscal year reveal a significant slowdown in spending.

The slowdown will occur at the beginning of the next fiscal year—in the July-September quarter of 1962.

At this time, the course of business for another year may largely be determined. The question is whether rising activity in the private sector will offset a leveling out of federal spending.

This question gravely concerns Kennedy's economic advisers. Here is why:

Federal expenditures (income and product account basis) were at an annual rate of \$98-billion in the January-March quarter this year. They are expected to hit \$109-billion in the April-June quarter next year—an \$11-billion push to the economy spread over 18 months. This push will be over in another six months. The new budget implies merely token rises beginning next midyear.

If private spending falters...

If spending by industry and consumers fails to climb, what then?

The Administration probably will go to another speedup of military procurement.

Officials are impressed by the quick response of the economy to new defense contracts this year.

Washington outlook Continued

Right now, officials incline toward a new round of military ordering in preference to either massive public works or a cut in taxes, if they decide the economy needs another push.

Dillon prods depreciation tax relief

More liberal tax allowances for depreciation are counted on by the Administration to give spending by industry a major boost next year.

This week, Treasury Secy. Douglas Dillon made a move designed to keep the new program moving swiftly through the bureaucratic maze.

Dillon announced accelerated engineering studies of six major industries to obtain up-to-date estimates of useful lives of machinery and equipment. This special treatment will be given makers of autos, electrical equipment, metalworking machinery and machine tools, railroads, steel, and aircraft.

Officials will use the resulting data as a basis for setting new useful lives of productive equipment in a broad range of additional industries.

Dillon explicitly repeated an earlier target date: By spring, he said, the Treasury expects to have revised depreciation schedules for major assets of all industries.

A few of these new schedules may establish longer useful lives than those now listed in Bulletin F, the official guideline to depreciation schedules. But the general trend will be in the direction of shorter lives and more liberal write-offs.

Dillon's announcement will cut short a round of speculation that the experts in the Internal Revenue Service could not finish their studies in time to take effect next year. There was talk about going to Congress for some kind of relief in the form of new legislation.

Now relief in the form of a revised Bulletin F is clearly on the track.

Hearings will take a fresh look at unemployment

Union officials are getting ready to press new demands for more federal spending if hearings now being planned by the Joint Economic Committee of Congress go the direction they hope.

The committee staff has completed a study of the causes of high unemployment—in particular why the jobless rate is sticking above 5% in a time of prosperity.

Union officials believe the findings will point to insufficient consumption as the chief reason. They think the study will downgrade automation, lack of proper training of workers, and other so-called structural causes.

Famous names will adorn ballots in '62

Some of the country's leading political families will be active in key states next year.

In Ohio, there is a possibility that as many as five Tafts will be seeking office. Robert A. Taft, Jr., son of the late Sen. Robert A. Taft, has already announced for a new statewide House seat in Congress. Four other Tafts—some related, some unrelated, but all Republicans—have either announced or are considering state contests.

In Massachusetts, George Cabot Lodge, son of Henry Cabot Lodge, the GOP nominee for Vice-President last year, is going after the Senate seat now held by Benjamin A. Smith, a Democrat.

Lodge may be opposed by either Edward M. (Ted) Kennedy, the President's younger brother, or by Edward J. McCormack, nephew of Rep. John McCormack, who is expected to be elected Speaker of the House.

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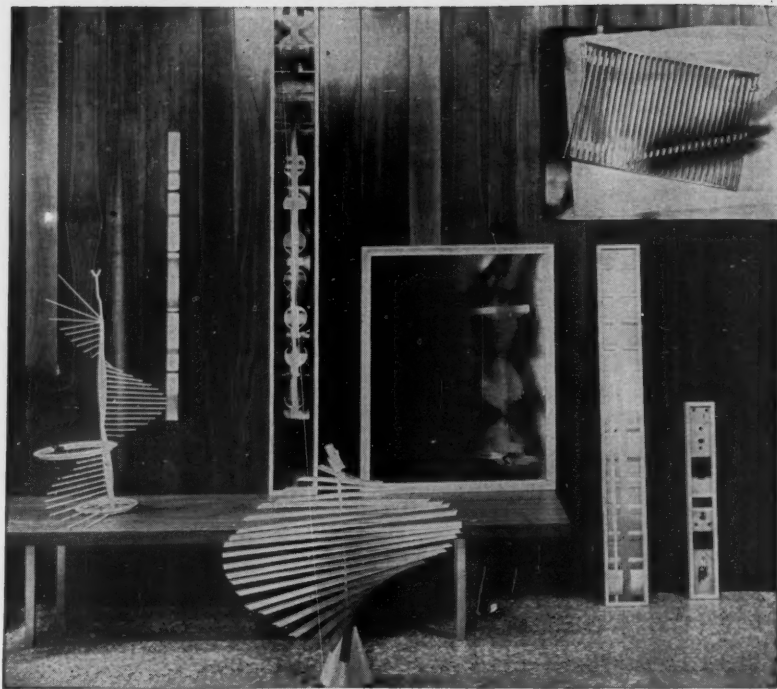
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Member F. D. I. C.



GE industrial designer Arthur N. BecVar admires industrial representation at exhibit he arranged in Louisville.



Art works for exhibit were produced by employees of General Electric's Appliance Park and displayed in GE auditorium. Sculptures were put together from parts of industrial products; the paintings originated in factory paint stalls.

PRODUCTION

Fanciful art works are factory byproducts

Industrial designers and other employees at GE's Appliance Park fashion their workaday materials into sculptures or seek out beauty among backboards of paint stalls

The art exhibit shown in the pictures, which just opened in Louisville, may look hauntingly familiar to amateurs who have trudged through galleries of abstract works, asking: "What is it?" The difference is that these pigmented abstractions and Rube Goldberg-like sculptures came out of General Electric's Appliance Park factories in Louisville. The paintings are chance creations of GE's paint shop; the sculptures were grafted together out of nuts, bolts, and other parts that go into such products as refrigerators and washing machines.

The exhibit was dreamed up by Arthur N. BecVar, manager of industrial design at Appliance Park,

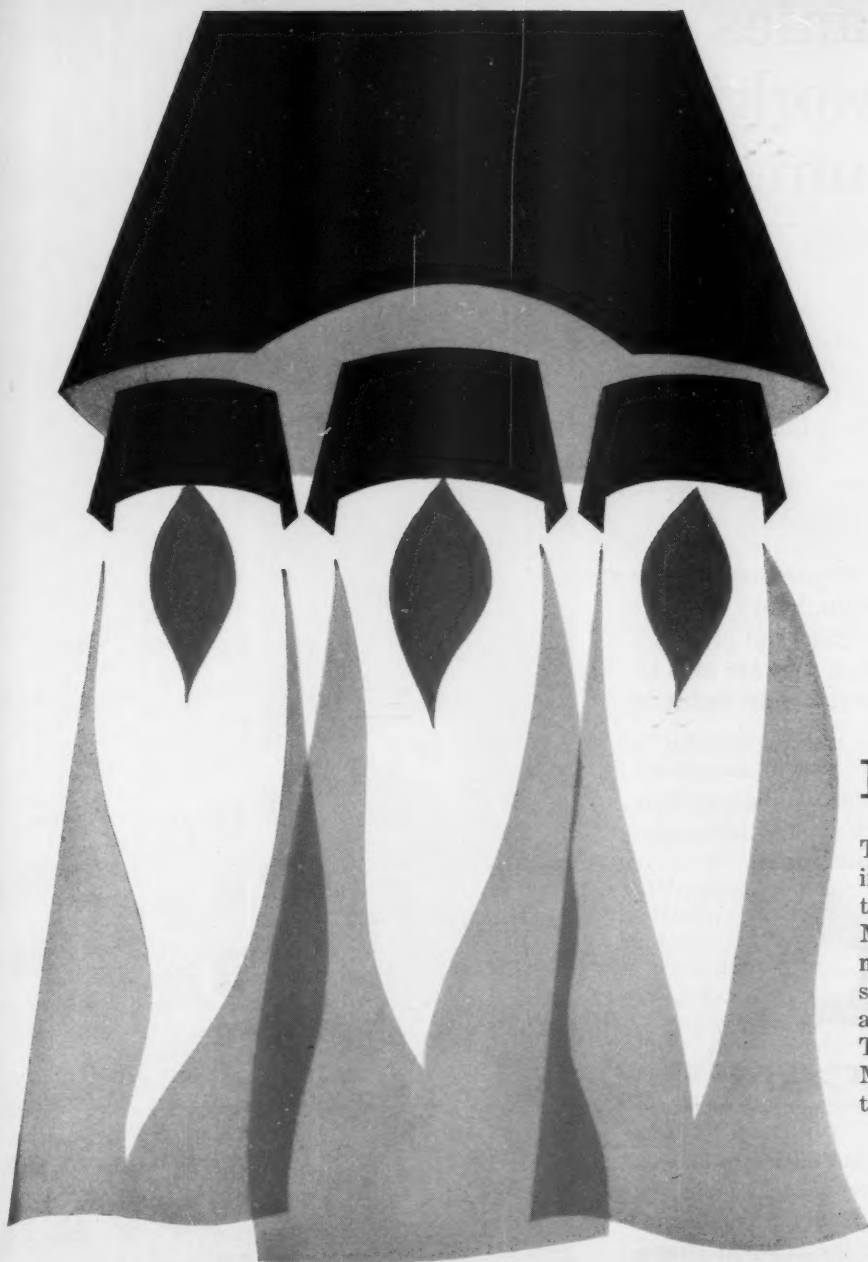
and several of his aides—all of whom have long been taken with the weird, fetching geometry of certain appliance parts and the splattered backboards that come out of GE's paint stalls. In his home, BecVar has even framed printed television circuits and hung them as pictures. "Industrial designers are skillful at visual communication," BecVar says, "and in their work, they become quite sensitive to beauty in everyday objects."

Big attraction. In the Louisville show, the sculptures are probably the biggest draw. One piece is a ceiling mobile made out of the back grille of an air-conditioning unit. Another is a gleaming "mother and

child" as depicted by a big refrigerator handle, a little refrigerator handle, and two Plexiglas rings that serve as halos or heads. The most complicated—and perhaps symbolic—of the pieces is "man," an emaciated figure mongrelized from a set of rotisserie gears, parts of a refrigerator ice tray, the meat thermometer from an electric stove, and a timer out of an automatic washing machine.

BecVar has mixed feelings about the exhibit. "It's fun, and we've been serious in our selections," he says, "but we want this show accepted for what it is—a casual, light-hearted display of forms, colors, patterns, textures, and lines."

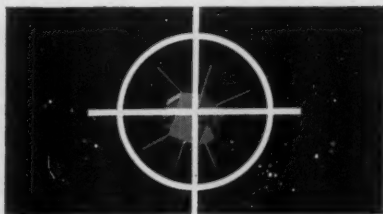
Other showings. The idea for such objets d'art is not entirely new. A San Diego gallery staged an exhibit of artistic airplane parts a number of years ago [B/W Aug. 18 '56, p. 190]. But the Louisville exhibit will be one of the first to go on the road. From the GE auditorium where it's being staged, the exhibit will move to Arts in Louisville House, a far-out avant-garde gallery and barroom whose patrons could be expected to react sympathetically to the chaotic charm of the collection. The next stop might possibly be a small public gallery in New York. After that, it may go to the Museum of Modern Art in New York, which is planning a show of industrial art. **End**



Hot shot

Temperature soars to 6500° F. in rocket nozzles, hot enough to melt most metals in a flash. Mallory research in powder metallurgy has produced tungsten base materials that are able to withstand this inferno. This is another example of how Mallory helps spur progress in this age of space and the atom.

MALLORY imagination at work in metallurgy and electronics



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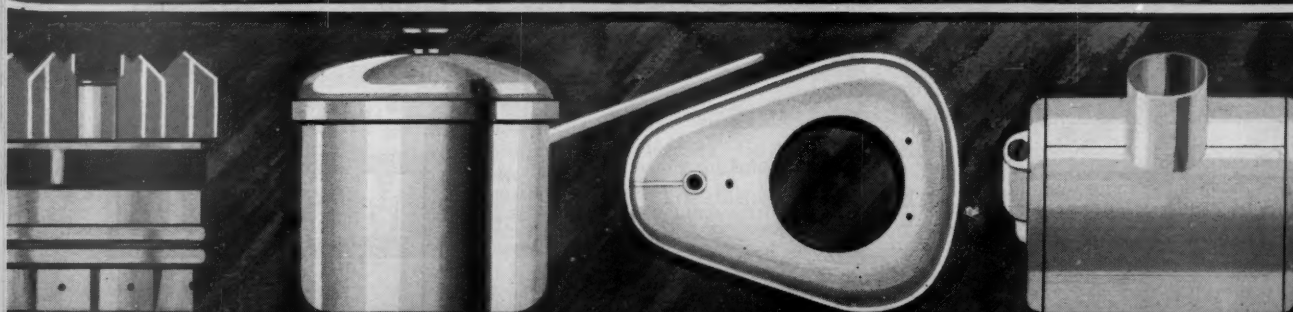
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BUS

Newspaper's classified ad section to be put out by computer

In Phoenix next February, a computer will start putting out a newspaper—or at least the classified advertising section. The Arizona Journal, a new, photo-offset daily starting life with 50,000 circulation, will be plugged into a General Electric GE-225 computer that will set up its classified ad section and handle the paper's bookkeeping, billing, and circulation accounting.

Here's how the system will work. A classified ad reaching the Journal office will first be tapped out on an ATF Justewriter, a keyboard machine that encodes the ad on punched tape, line for line, just as a typesetting machine does. After the original copy is checked against a print-out from the Justewriter, the taped data will be flashed over telephone lines to the computer at GE's Information Processing Center in Phoenix. There, a magnetic tape is produced.

At the right time, the computer will sort all ads on the tape by classification and alphabetical sequence within each classification, check them against ads from the preceding day to see which ones are to be "killed and billed," and then produce both a master tape of that day's ads, plus a punched tape. The finished ad copy will be transmitted back to the newspaper where the Journal's photo-composition machine will set up the ads. All that remains is to put the ad copy into page form for the photo-offset process.

Right now, there are only about 650 photo-offset newspapers in the country, seldom running over 15,000 or 20,000 circulation each. GE claims, though, the same system could be used for classifieds on regular metropolitan dailies or weeklies that use typesetting machines and conventional printing presses, rather than photo-offset. Instead of producing a printed read-out that would be reproduced by offset, the tape from the computer could go into a regular typesetting machine to produce lines of type.

Another entry in race to make "self-opening" and flip-top cans

Another machine for turning out "self-opening" or flip-top cans was introduced last week—this one by Can-Top Machinery Corp.

The Can-Top equipment marks one of several attempts to make the can opener obsolete. Two easy-open cans were introduced almost back-to-back last year. One was developed by Central States Can Corp., working with E.W. Bliss Co. and Kaiser Aluminum & Chemical Corp., and the other by Aluminum Company of America and United Shoe Machinery Corp. The Alcoa-United Shoe can is being test marketed by Minute Maid Corp. with a frozen concentrate.

Can-Top claims that container lids made on its machine are more reliable and more easily flipped open than lids from the earlier machines. The Alcoa-United

Shoe equipment brought complaints of ragged can edges that could—and did—cut fingers.

The Can-Top machine produces two different tops. One top that peels completely off with the tug of a tab is for frozen concentrates and other solids or semi-solids. The other—with a V-shaped, pouring tab that lifts straight up and tears off—is for carbonated drinks, beer, and other non-carbonated liquids.

Can-Top claims the new machine—dubbed Pulltop—can punch out 400 self-opening lids a minute. For beer can tops, according to A. Ralph D'Andrea, Can-Top president, the production cost for Pulltop will run about \$2.60 per 1,000 more than regular can ends; for the smaller, concentrate containers, about \$1.50 more per 1,000.

Right now, D'Andrea says Can-Top has 10 machines in production, and hopes to have one or two installed and operating by next February or March. He hopes to sell the machine to can companies or individual processors—at \$20,000 to \$25,000 each—or to lease it.

20-story stripping shovel to feed coal to TVA steam plant in Kentucky

A self-powered land vehicle billed as the biggest ever designed is being built by Bucyrus-Erie Co. to help feed in the mountains of coal that will be consumed by TVA's giant new Paradise Steam Plant in western Kentucky. The stripping shovel will be as high as a 20-story, with a bucket that could lift a loaded railroad car in its bucket, swing it around, and dump it a block away.

The machine was ordered by Peabody Coal Co., which has a 17-year contract to supply an annual 65-million tons of coal to the Paradise plant. Each year, the machine will gouge out 36-million cu. yd. of overburden.

Production briefs

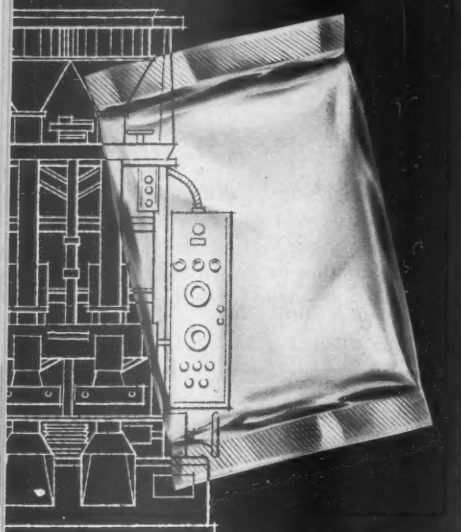
Du Pont has come up with a new "synthetic leather" that could be used for shoe uppers, luggage, upholstery, and briefcases. Now the company is deciding whether to build a plant and go into production. Du Pont claims its synthetic will last longer than real leather.

General Electric last week began offering an electro-hydraulic or spark forming system as a standard line of metal-forming equipment. Spark forming is one of four new, high energy rate metal forming techniques [BW Nov.25'61,p94]; it shapes a metal under water by an electrical jolt whose shock waves force the metal into a die. GE's new 20-kilovolt forming equipment comes with 12,500- to 50,000-joule capacitor banks. GE is pushing the process for forming such metals as columbium, stainless steel, tungsten, and beryllium alloys. Prices range from \$11,000 to \$26,000.

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POUCH PACKAGING

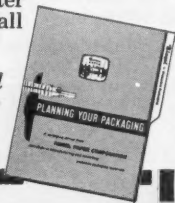


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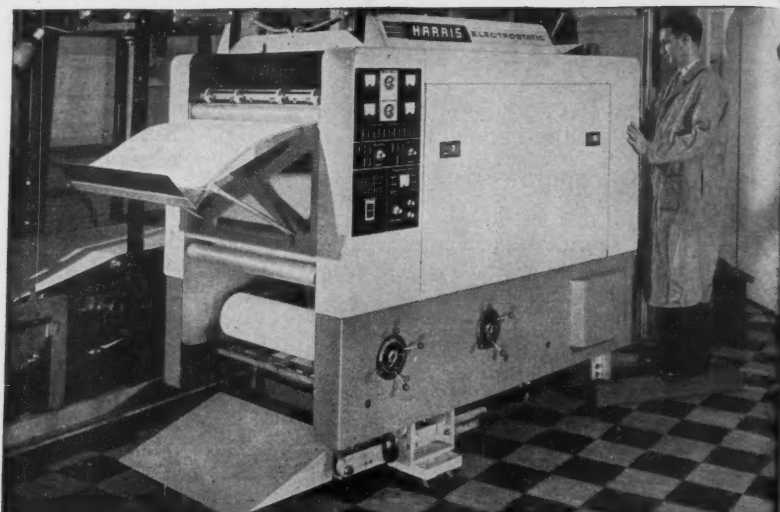
Please send Technical Folder
"Planning Your Packaging"

Name _____

Title _____

Co. _____

Address _____



Electrostatic machine uses short-cut method to reproduce drawings at high speed

NEW PRODUCTS

Speedier map printer

Army is trying out Harris-Intertype's mobile printer to make quick, on-the-spot copies of maps and other records. Device has possible office uses

In future battles, maps may be printed at the point of operations instead of being printed in advance and shipped to the troops. At least that is the expectation of Harris-Intertype Corp., Cleveland, which has made a map reproduction machine (picture) for the U.S. Army Engineers. The machine is mobile and fits into a standard Army van.

The map reproducer operates on an electrostatic principle whereby the map image is projected by a flashing light from microfilm on to a special electrically charged paper. The light neutralizes the paper at all points except where printing is to occur. Then the paper is passed through a special developer bath, and the image is printed only on the charged surfaces.

Innovation. H-I claims its printer is the first electrostatic machine to use a liquid developer. In addition, it uses a special company-designed paper. George S. Dively, H-I chairman and president, says the liquid developer gives a sharper image and requires less complicated machinery. Also, the new machine has a built-in dryer, which permits it to deliver completely dry maps.

The first model, which is being shipped to the Army at Fort Belvoir, Va., reproduces only one color at a time. But multiple-color maps can be made by rerunning the same paper through the press several times using different color developers. H-I is working on a machine that will reproduce maps in five colors in a single pass.

Advantages. There are several advantages to having map-reproducing equipment available near a point of military operations. In World War II and in Korea, about 90% of the maps printed were never used because it was impossible to estimate exact needs and the time lag in getting maps from printers to the field.

Another important military problem is security. With the new machine, a courier with maps or changes will need to carry only a small set of microfilm. Then, as maps are needed, they can be reproduced in controlled quantities.

Dively believes the first commercial applications of the new process will be in areas such as engineering drawings, reproduction of microfilm records, and for low-priced office reproducing machines. **End**



The challenge stirs the imagination and ingenuity of man perhaps more than any other in history. And in the drive to conquer the almost unthinkable infinitude of the heavens, Georgia Tech scientists joined the task early and have kept pace with space technology and developments. Notable achievements have been made in ceramics for rocket nose cones and work is being pressed forward in developing protective coatings for space ships re-entering earth's atmosphere with the speed of a shooting star. Heat-fighting nozzles are being created for uncooled solid propellant rockets. Another project may contribute to a nuclear propulsion system. Georgia

SPACE

Tech scientists have also tackled the job of finding a flexible ceramic for insulating the electrical systems in missiles and aircraft. Few earth materials have been exposed to the strange environment of space. Research at Georgia Tech will tell us which materials will stand the test before they are sent on a journey to the stars. We are proud of Georgia Tech's contributions. GASA will draw heavily on the school's resources in helping make America's space program a success. Your inquiry for information on this resource in research will be held in strict confidence.

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Executive Offices, State Capitol, Atlanta, Georgia

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1201 (4-60)

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BUSINE



General Mills new Pres. Edwin W. Rawlings (center) visits its Betty Crocker Kitchens with Chmn. Charles H. Bell;

cake mixes, other packaged foods, and flour are company staples; but Rawlings is pressing for diversification.

MANAGEMENT

When a general takes the controls

Rawlings, stepping up to General Mills presidency, starts off fast in tackling company's profit problems with methods he learned in managing Air Force procurement

Things have not been the same in the executive offices of General Mills, Inc., since March, 1959, when Edwin W. Rawlings (cover and above) exchanged his four-star Air Force general's uniform for a top executive job with the nation's largest flour miller.

Two of the Minneapolis company's three executive vice-presidents have quit and the third retired. Four of the 16 directors have been replaced. Three of the nine-man executive committee have died, retired, or quit, and Rawlings has been added to make it a seven-man group. Of the seven highest paid officers, four have retired and a fifth resigned.

Much of this is coincidence rather

than the result of Rawlings' entry, and the company's spokesmen, from Charles H. Bell, now board chairman, on down deny "it was planned that way." But some in the company dub it "the Rawlings earthquake."

Tremors to come. On Dec. 1 Rawlings stepped up to the presidency—and further tremors were immediately felt. In his first executive change as president, Rawlings tapped 31-year-old Louis F. Polk, Jr., only one year at General Mills, for financial vice-president and this week he created a new International Div., adding it to the responsibilities of Vice-Pres. W. F. Mitchell, general manager of the Chemical Div.

It's too early, of course, to say

how far the tremors will reach. But some of the problems the general-turned-president will face are already evident.

Sales have been climbing steadily—to a record \$575-million in the fiscal year ended last May 31. But net earnings hit their peak of \$16.8-million two years earlier. That was 3.1% of sales—outstanding in a business where profit margins are low. In the year ended last May 31, net was down to \$12.8-million, a mere 2.2% of sales.

The company's diversification program has been lagging, especially in the non-food lines, despite strenuous efforts. Earlier high hopes for a company so diversified as to be no longer dependent on highly

The printing industry uses over \$1 billion worth of paper yearly. An increasing share comes from one of the country's fastest growing new sources,



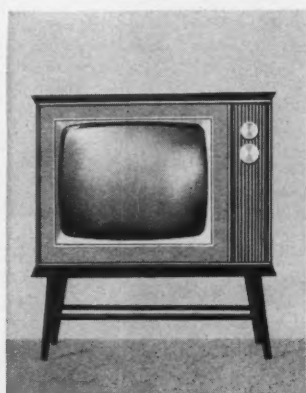
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competitive, low-margin food lines have never panned out.

Rawlings, a quiet-voiced, pipe-smoking executive, is reluctant to discuss his plans for General Mills. His choice of Polk, however, clearly indicates his desire for new blood in the company's financial circulatory system—often the key to profit and loss today. Polk brings a know-how in modern business techniques, such as data processing, in which Rawlings pioneered as top Air Force logistics officer.

In non-food lines, it's evident that Rawlings must continue to look for diversification in specialized fields, such as electronics and chemicals, where generous profit margins may compensate for relatively small sales.

But Rawlings emphasizes that General Mills must continue to rely basically on food products, including such standbys as flour, feed, and packaged foods. In this, Rawlings, who once spoke of "the boldness, the freshness, the daring of new ideas that create progress," may look to the company's top-flight research department to show the way to growth and profits.

I. From planes to flour

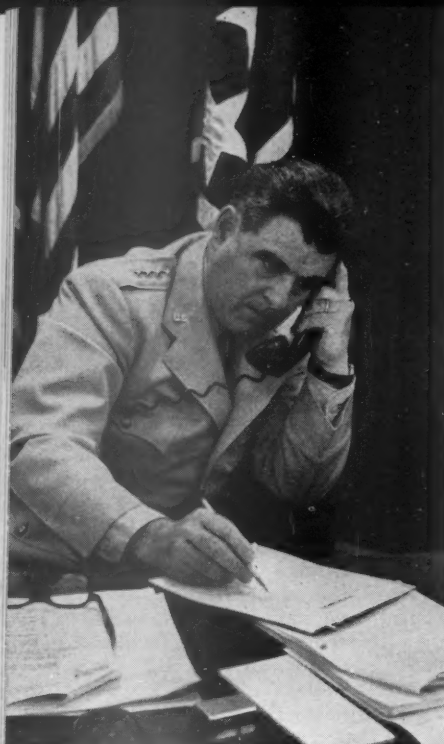
How does a former Air Force general come to be in the executive offices, running a company whose leading product is flour?

It's a story partly of chance contacts, partly of internal wrangling at top company levels, partly of the development of modern management methods, applying both to the logistics of air materiel supplies and the production of flour, organic chemicals, digital computers, and automatic handling equipment.

The story starts in wartime when Rawlings, then a colonel and head of the Air Force materiel scheduling and readjustment divisions, was Charles Bell's commanding officer. The experience impressed Bell, who was then in his late 30s. "Ed Rawlings was one of the finest executives I've ever worked for," he recalled later.

New blood—but where? A decade and more later Bell, president of General Mills from 1952 on, became aware of a personnel problem at the company's top levels. The board of directors was still dominated by men who had served the company for three decades—including Bell's father, the late James Ford Bell, who had created General Mills in 1928 out of the privately held Washburn Crosby Co. With top executives nearing retirement age, new blood was needed.

Three executive vice-presidents



Businessman-soldier Rawlings, as Air Force general, dealt with multibillion dollars in materiel, not tactics.

were in line for Bell's post when he would move up to chairman. But Edward O. Boyer, heading the key flour and feed divisions, would be near retirement age by then. A.Z. Kouri, supervising the growing consumer foods operation, was youngest of the three, but had not yet earned a place on the board of directors.

This left Arthur D. Hyde, a graduate engineer who supervised mechanical, chemical, and research projects, virtually unopposed. No one is clear why Bell decided Hyde was not the man he wanted for his successor. Hyde's mechanical division had plunged into the home appliance field after the war, bucking such veterans as General Electric and Westinghouse, but had given up the battle in 1954. Whether Bell held Hyde responsible for the fiasco, or whether it was Hyde's relative lack of experience in major food fields is uncertain.

At any rate, Bell turned his back on home-grown talent and went to his old wartime commander—three years his senior—for his replacement.

Two crises to the top. Rawlings came in as financial vice-president, responsible for broad financial planning. He denies, with evident sincerity, that Bell then suggested he would end up in the president's office. But the mere fact that Bell had gone outside caused talk in the

company that Rawlings was "Charlie Bell's choice."

That was in March, 1959. A year later came a company crisis, when Kouri abruptly resigned after an argument over a Kouri-sponsored innovation that hadn't turned out well. Rawlings was named to take over the consumer food division.

Eight months later, Bell and Hyde had a sharp disagreement over how closely to tie in the chemical and mechanical divisions to central operating policy. Hyde quit. Rawlings was moved in.

Last May, Rawlings was put in charge of all company operations. The later move to president was almost an anticlimax.

Billion-dollar business. Rawlings' shift from Wright-Patterson Air Force Base in Ohio to Minneapolis (across Minnesota from his birthplace at Milroy, Minn.) was not so great a jump as it may seem, though. For despite his 30 years in uniform and his Distinguished Flying Cross, he was more a civilian businessman than a soldier. Since 1935 he had been more concerned with procurements, contracts, and budgets than with combat firepower or tactical strength.

For two years of his service, in fact—from 1937 to 1939—he was a student at Harvard's Graduate School of Business Administration, winning a master's degree in industrial management, with distinction. After the war, as chief of the Air Force Procurement Div., Air Force Comptroller, and head of the Air Materiel Command, he handled a multibillion-dollar business. He won his four stars in 1954, at 49.

II. Diversification path

Still, company problems such as diversification and profit margins are not quite those of far-flung Air Force procurement operations—even though General Mills now has manufacturing and processing operations in 26 states and four foreign countries, from Mexico to Pakistan.

Though the question of diversification looms large in Rawlings' future, it's by no means a new problem for General Mills.

In fact, it was the storm clouds rising on the diversification front in the late 1950s that, as much as anything, led Charles Bell to look for new blood. Flour then no longer dominated the company's outlook, having fallen from 74% of sales in 1938 to 43% two decades later. Feed, once second at 19%, had dropped to 13%. But some new product efforts had led up blind alleys.

Hopes and fulfillment. Since Gen-

eral Mills' early days, James Ford Bell had insisted on the primacy of research. In the first decade after formation of General Mills in 1928, research was concentrated in food and grain-connected products. Out of it came such best-sellers as Bisquick and Cheerios. In the postwar decade, packaged foods fulfilled all hopes, reaching \$186-million, or 34% in sales, in 1959.

But packaged foods, like the company's Gold Medal flour, are a competitive, low-profit operation.

Harry A. Bullis, who became president in 1942, recognized that diversification needed a broader base. He transformed the company's machine shop—previously limited to internal chores such as developing puffing guns and packaging equipment—into a wartime defense activity specializing in gun sights, torpedo directors, and the like. By war's end, General Mills was a full-fledged metalworking operation.

But Bullis' diversification hopes were never fully realized.

Hyde of the mechanical division had boasted [BW Feb. 28 '48, p68] that before the 1950s ended organic chemicals would produce sales of \$50-million to \$100-million. By 1959, they were still inching along at \$8-million. The postwar home appliance venture came a cropper; the total dollar loss it entailed remains locked in company files. By 1959 the mechanical division—though a leader in balloons, nuclear handling equipment, and specialized electronics—produced less than 4% of total sales.

New moves. But the company hasn't given up. Nothing that hints of a potential market is too small grist for its grinder. It recently began producing multipurpose food, a low-cost soybean product that can serve as a staple in fallout shelters (industrial soy proteins and guar gums are among its specialty products).

It has also acquired such diverse operations as Magnaflux Corp. of Chicago, a materials testing company, and the Daven Co., Livingston, N. J., which produces electronic components.

On the marketing side, the company has never lacked imagination. It is one of the nation's largest advertisers, pioneered in radio advertising, and, for better or worse, it lays claim to the first singing commercial. It is one of the largest distributors of premiums in the grocery field.

And its traditional stress on research is now expanding in a new research center in Golden Valley, Minn. **End**



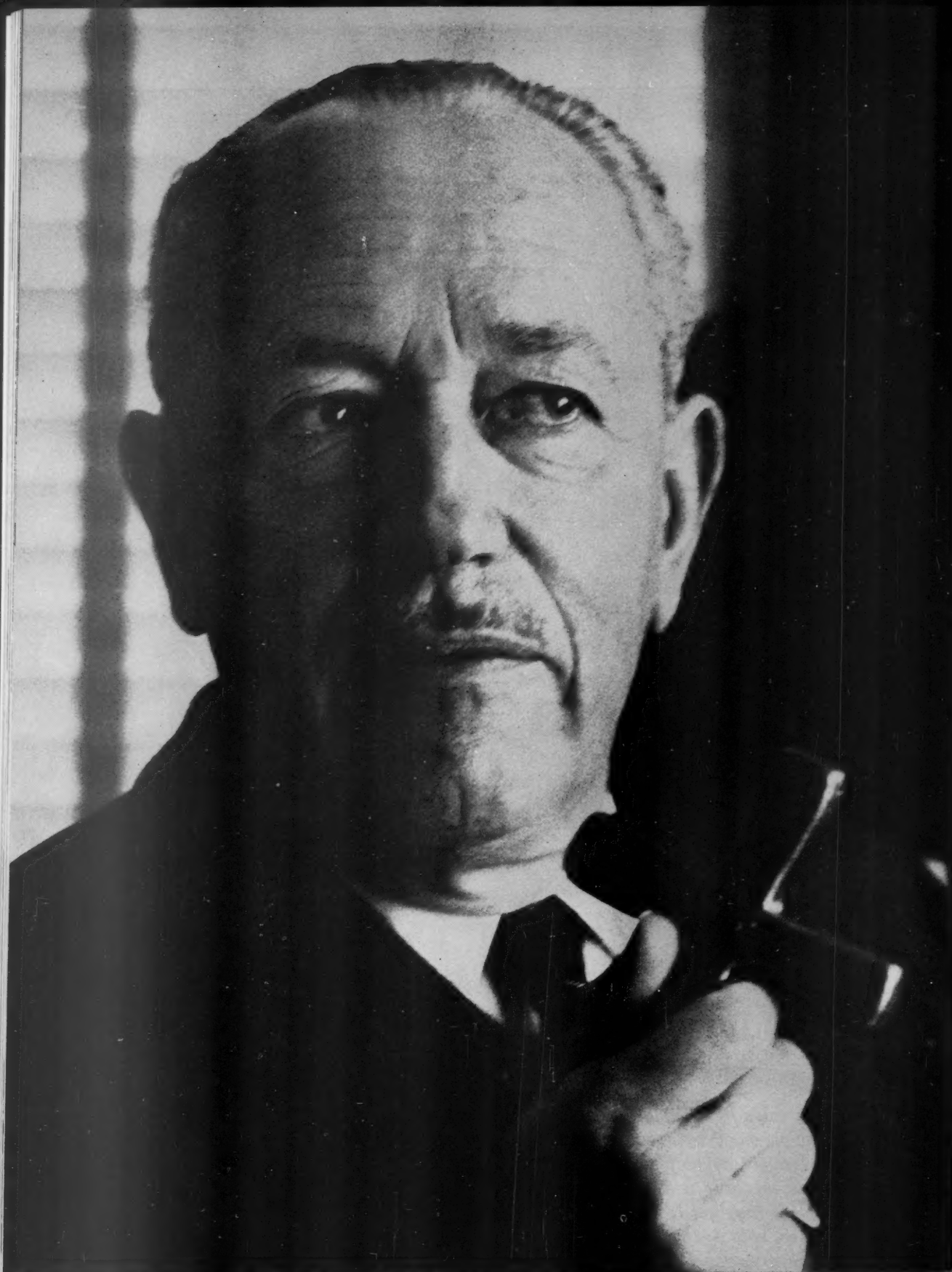
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Pres. Herman Robiliart holds copper cross, currency used by Katanga tribes in 19th Century, now the company symbol

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Copper and cobalt deposits in Katanga Province helped earn Union Miniere a net profit of \$47-million in 1960

BUSINESS ABROAD

Doing business amid Congo crisis

Union Miniere du Haut-Katanga, the Belgian mining giant that is backing Moise Tshombe, manages to make money despite controversy swirling around it

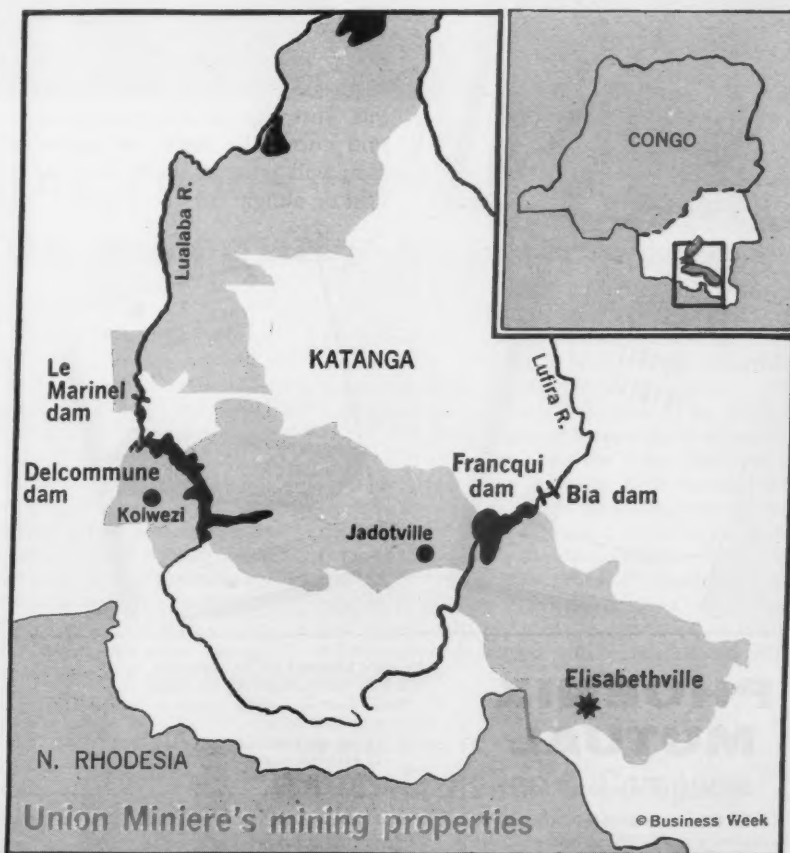
Ever since the Congo exploded 18 months ago, pressures have been building against the powerful Belgian mining company, Union Miniere du Haut-Katanga. Big, white, and prosperous, the company dominates the economy of secessionist Katanga Province.

At the United Nations, propaganda against the company has reached thunderous proportions. Most officials of the U.N. Secretariat, even those with pro-Western leanings, now point to Union Miniere as the arch villain in the crisis. The delegates' lounge bristles with rancor.

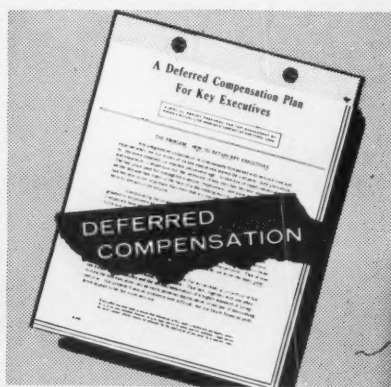
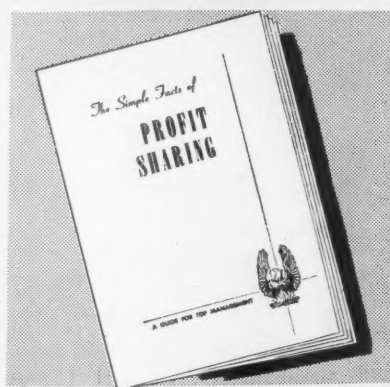
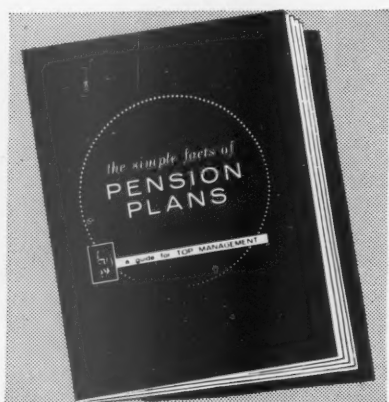
In the Congo, the company's installations have operated in a sea of tribal strife. Violence around them continues to mount. And some ministers in Pres. Moise Tshombe's cabinet have threatened to destroy company properties if the province is invaded again by U.N. or Congolese Central Government troops.

At midweek, U.N. troops attacked. Union Miniere officials held their breath.

Record year. So far, Union Miniere has operated with success. Last year's production of copper was a record—more than 300,000 tons, keeping the company in rank as the world's third-largest copper pro-



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ducer. Union Miniere also produced 60% of the world's cobalt, a large part of its germanium, and nearly all of its radium. Only a few days' output was lost. Net profit for 1960 was \$47-million. This year promises to be as good.

Nevertheless, Union Miniere is deeply troubled. It is growing sensitive to world opinion, and its anxieties about the future are rising. For these reasons—and perhaps others—the company is beginning to break with some of its past practices.

In an unprecedented step, Union Miniere Pres. Herman Robiliart (picture, page 60) issued a statement in New York at the end of last month categorically denying charges that the company has been fomenting discord in the Congo. Hitherto, the company had stayed silent. Even in the nonattributable denials that it used to give, in answer to specific questions about the charges, Union Miniere had adhered to the European tradition of saying as little about itself as possible.

In September, an even higher official—Edgar Van der Straeten, a vice-governor of Societe Generale de Belgique, the holding company that controls Union Miniere and other Congo companies—visited the U.S. to explain the company viewpoint to New York business and financial circles.

Meantime, Societe Generale has set up in the U.S. a small company called Belgo-American Development Corp., whose mission, among other things, is to explain the role of private industry in the Congo. The U.S. chairman is Adm. Alan G. Kirk (Ret.), former U.S. Ambassador to Belgium (and to the Soviet Union).

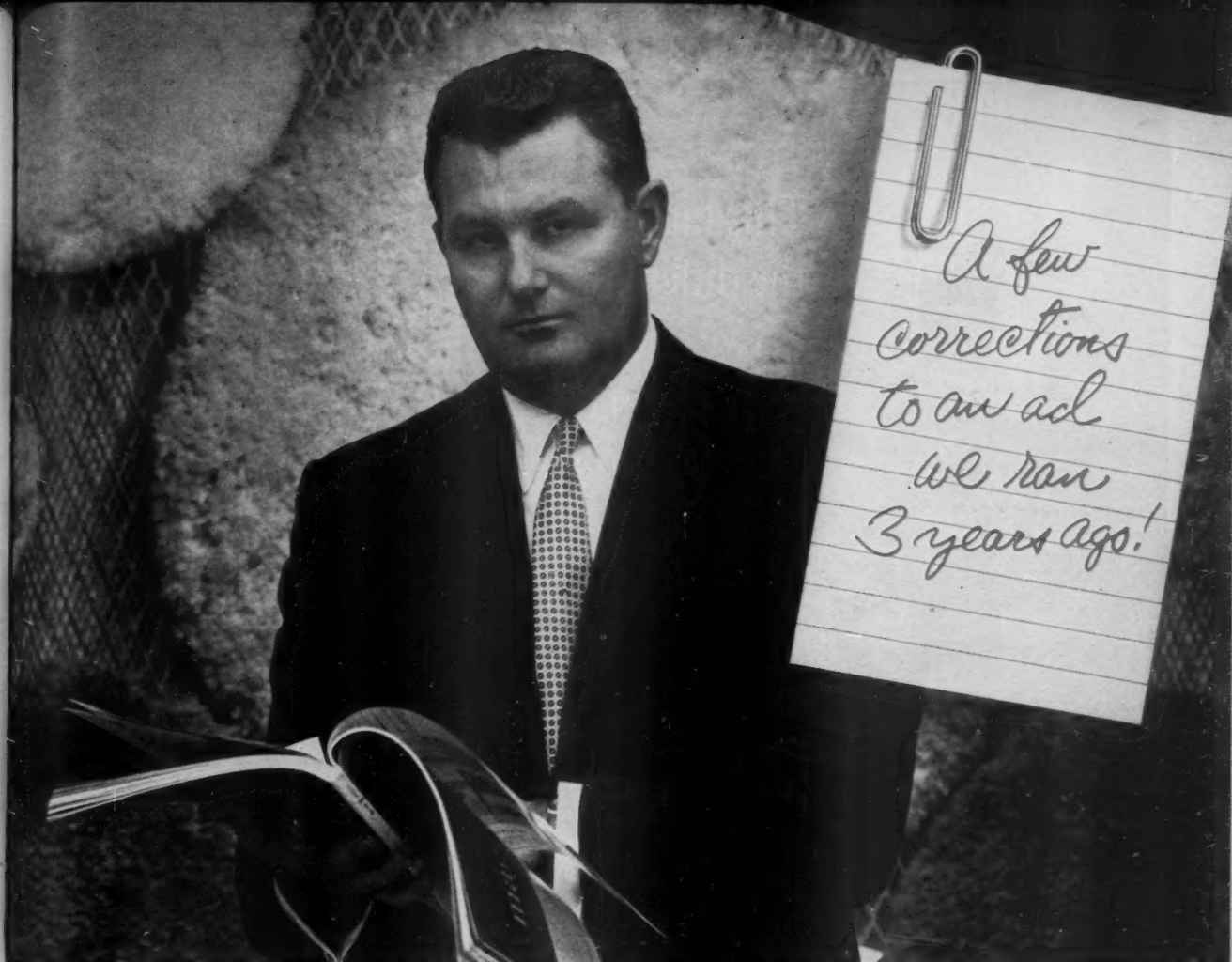
I. Smear campaign?

Even had Union Miniere elected to speak up earlier, it might never have overcome the effect of what has all the marks of a deliberate campaign by Africans and others to smear the company name.

In the Security Council, neutralist delegates with pro-West leanings have accused Union Miniere of paying mercenaries to fight for secessionist Katanga.

In a report by a General Assembly commission, the company was implicated—by unnamed witnesses—in the slaying of Premier Patrice Lumumba, at least to the extent that a Union Miniere refrigerator allegedly was used to preserve his body.

In private conversations, high U.N. officials accuse the company of harboring mercenaries in its offices, converting trucks into armored vehicles, and even having an indirect



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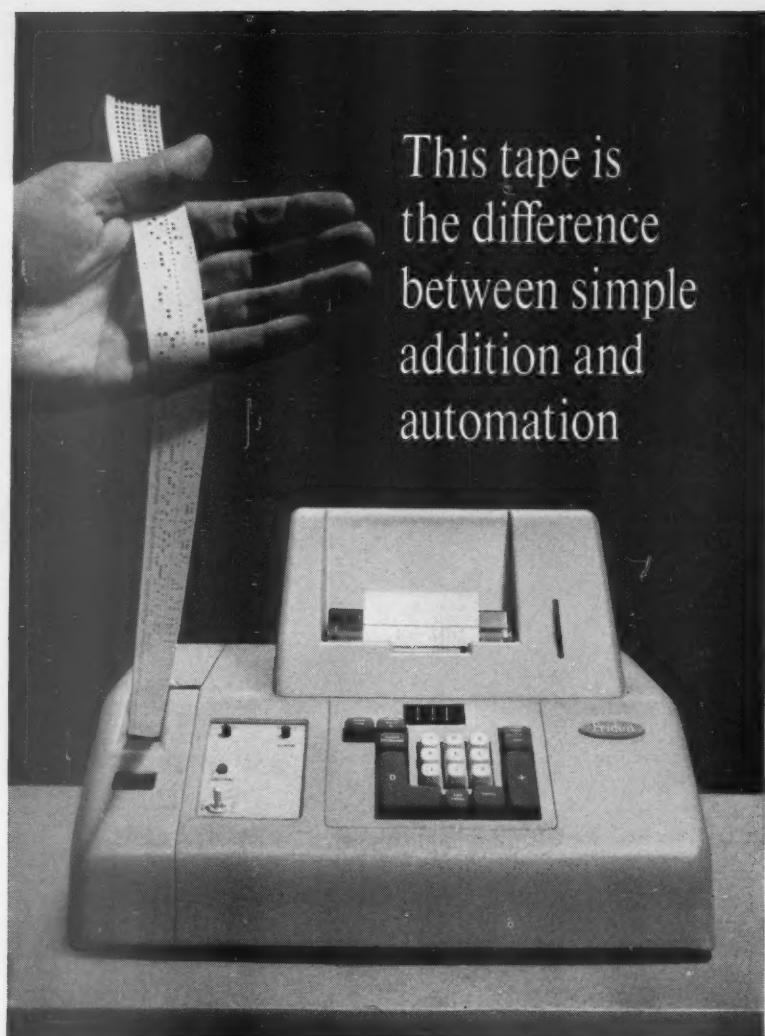
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hand in the airplane death of the late Dag Hammarskjöld.

Defense. In denying such charges, Pres. Robiliart points out that peace and stability, not war and chaos, are in the interest of a mining operation. "It is preposterous to suppose that a private company would engage in activities that would invite harm to its personnel or its properties."

Even sectors of the U.S. press seem to have sided against the company and accepted uncritically the premise that Union Minière itself rules Katanga Province and Moïse Tshombe, and calls all Katanga's power plays.

After Hammarskjöld's death, criticism of the company reached its height. In a comment that still baffles many observers, NBC's U. N. correspondent, suggesting that both Union Minière and the Soviet Union had gained from the Secretary General's death, referred to "the new unholy alliance of the exploiters of Katanga and the Soviet Union."

II. Air of mystery

It is easy to see why the company invites suspicion, especially among African nationalists.

The company's international connections, though no more sinister than those of many mining empires, are very strong. While 18% of Union Minière's stock is held in trust for the Congolese, nearly 28% is held by Belgium's Societe Generale, a British-owned company called Tanganyika Concessions, Ltd., and Compagnie de Katanga, which is controlled by a major Societe Generale affiliate, Compagnie du Congo pour le Commerce et l'Industrie. A full 54% is publicly owned by 120,000 shareholders, in the approximate proportion of 75 Belgians to 25 Frenchmen.

Beyond that, of course, Union Minière naturally has a mighty world marketing apparatus.

Complex setup. To its critics, Union Minière's management is too complex for innocence. The company's headquarters are in Brussels, where a "permanent committee" sets policy for Union Minière. Executives like Herman Robiliart and Edgar Van der Straeten make occasional trips to Elisabethville, Katanga's capital and Union Minière's operating headquarters. Policy in Katanga is implemented by Maurice Van Weyenbergh, vice-chairman of the Elisabethville Management Committee, and General Manager Gerard Assoignon.

Combined with the company's restraint in talking of its own affairs, its ownership and management set-



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ups have created in the minds of many Africans an air of mystery about Union Minière operations.

As the largest single taxpayer in Katanga, Union Minière naturally and legally contributes funds to Katanga's defense. By law, it has no choice. Thus, Africans often accuse Union Minière of "paying" the mercenary soldiers that Moïse Tshombe has hired.

And by its ability to get along with Moïse Tshombe, Union Minière antagonizes Tshombe's enemies—including the U.N.

III. Key to survival

If there is a key to Union Minière's survival, it lies in the company's foresight and, when the foresight is wrong, in its flexibility.

Even in World War II, Union Minière won a reputation for figuring the next move. Before Washington knew of its need for uranium, the company anticipated the coming of the atom bomb—and the role of uranium. When the U.S. government asked Edgar Sengier, then head of Union Minière, how soon he could deliver uranium from the Congo, he replied: "It's already in New York. I've been waiting for you."

Long before the Congo's independence, Union Minière began cultivating a wide range of African leaders expected to play important roles in Katanga and Congo politics. One of them was Moïse Tshombe.

Ever since Tshombe was elected to office, the company has been accused of "subsidizing" him. Likewise, Tshombe is called a Union Minière stooge. Both vehemently deny the charge.

Deal with Tshombe. Without doubt, Union Minière contributes heavily to Katanga Province. In fact, it pays more than some executives feel it should, about \$50-million a year in various taxes, royalties, and dividend payments. Katanga's total budget is \$84-million.

Pres. Robiliart puts the situation succinctly: "Union Minière is subject to the laws, regulations, and taxes of the authorities in the area in which it operates. It is unfair to base criticism upon or draw inferences from this kind of relationship."

To be sure, Tshombe does not always act like a stooge. His price for letting Union Minière continue to operate was a promise by the company to pay his secessionist government the dividends from the shares being held in trust for the Congolese pending a political settlement.

Union Minière, of course, has leverage on Tshombe in return—

enough to have its say in the councils of government, but probably not enough to swing real weight against strong African opposition.

Heavy contribution. Besides paying taxes and dividends, Union Minière makes a heavy contribution to the Katanga economy by employing 20,000 Africans (who, with their 80,000 dependents, enjoy the highest living standard for Africans anywhere in Central Africa). The company has built and operates 10 hospitals, 70 schools, with a total investment of \$80-million in social and welfare projects. That includes thousands of houses for Africans.

Beyond that, the company keeps investing in Katanga at the rate of about \$20-million annually. This year, it expanded its automated refinery at Luilu, put a cobalt plant in operation, and started up a 720,000-ton-a-year concentrator at West Kambove to treat ores.

Holdings. As of now, the company has 11 major mines, four major refining complexes, four hydroelectric projects. In the past 10 years, the company has invested about \$300-million in new installations. By African standards, the company's personnel policy has been liberal with 99 Africans now on the supervisory staff and 290 in responsible jobs assisting the staff. From a total of 1,895 Europeans on the staff at the end of 1959, the number has dropped to today's 1,725.

Union Minière also has 11 important subsidiaries in Katanga, from its own power plant company to an agricultural company that supplies foodstuffs to Union Minière.

Political role. The company never has taken an official partisan stand in Congolese politics. Privately, however, Union Minière officials have. Herein lies a rub.

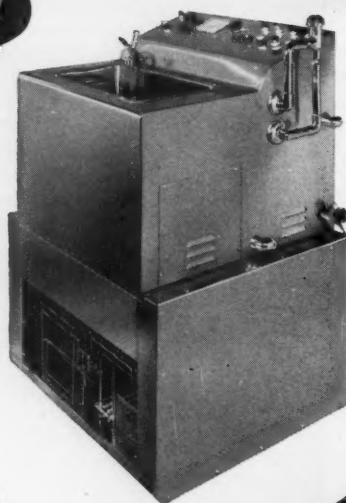
At first, many Union Minière officials let it be known, at least in Elisabethville, that they supported fully the secession of Moïse Tshombe from the central government in Leopoldville under Patrice Lumumba. They figured that a stable Katanga in secession was safer for mining operations than the wild turmoil unleashed by Patrice Lumumba elsewhere in the Congo.

If Katanga were to be free of a leftist Leopoldville regime and not to be drained in taxes to support all the Congo, these officials said, only a loose federation seemed desirable—nothing more.

This attitude alienated U.N. officials, and virtually all African nationalists.

At least to some company officials, a unified Congo looks more appealing now. This attitude seems to

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date from the uprisings last summer in Angola, the Portuguese colony through which Union Miniere exports much of its production now that its main supply route—through Port Matadi, near Leopoldville—is closed to it. If the Angola route were severed, the company would have considerable difficulty, since its other principal route, through Mozambique, already is strained. If Katanga and the rest of the Congo get together, Union Miniere then could resume using Matadi.

This attitude infuriates some Katanga officials.

IV. Hedge against future

At the moment, company officials express confidence that their properties will not be nationalized—at least, in the near future. "Even if the Congolese or Katangese were trained technically to run the mines and refineries," says one official, "they would have a difficult time marketing the production."

As a hedge against the future, however, the company has plans to convert itself from a Belgian company to either a Congolese or Katangese company, "depending on how things go." With this move, Union Miniere hopes to allay some of the distrust among Africans. The company would name some African directors to the board, but provide "arrangements" for protecting the interest of present shareholders.

Coming issues. Already, 1962 promises to be a grim year. The U. N. is determined to bring Katanga to heel. This time, it has airplanes available—and one of their primary targets will be the town of Kolwezi, the company's most important industrial center.

If the U.N. overthrows Tshombe, the Leopoldville regime will have full control over Union Miniere. And under the present premier, Cyrille Adoula, the Central Government has a coalition cabinet with a strong Lumumbist content.

If the Central Government should nationalize the Union Miniere properties, it easily could call on Soviet and other Eastern bloc technicians. It has called on them before. The Soviet bloc, too, could take over the marketing.

The company shrinks from comment on this possibility. An official conceded privately, however, that a logical next step would be to follow the pattern of the Suez Canal Co., which protected its shareholders after Abdel Nasser expropriated the Suez Canal by becoming a successful investment and holding company. **End**

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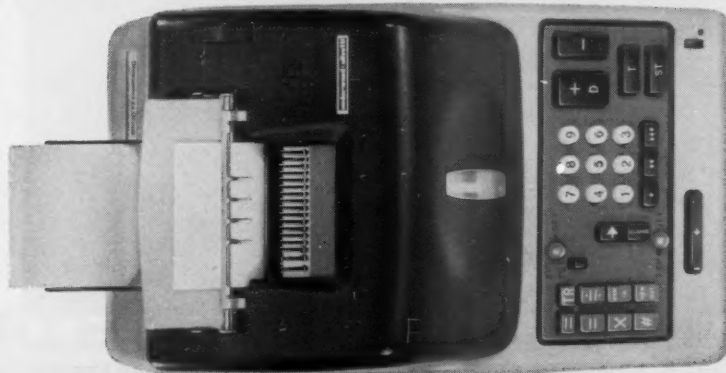
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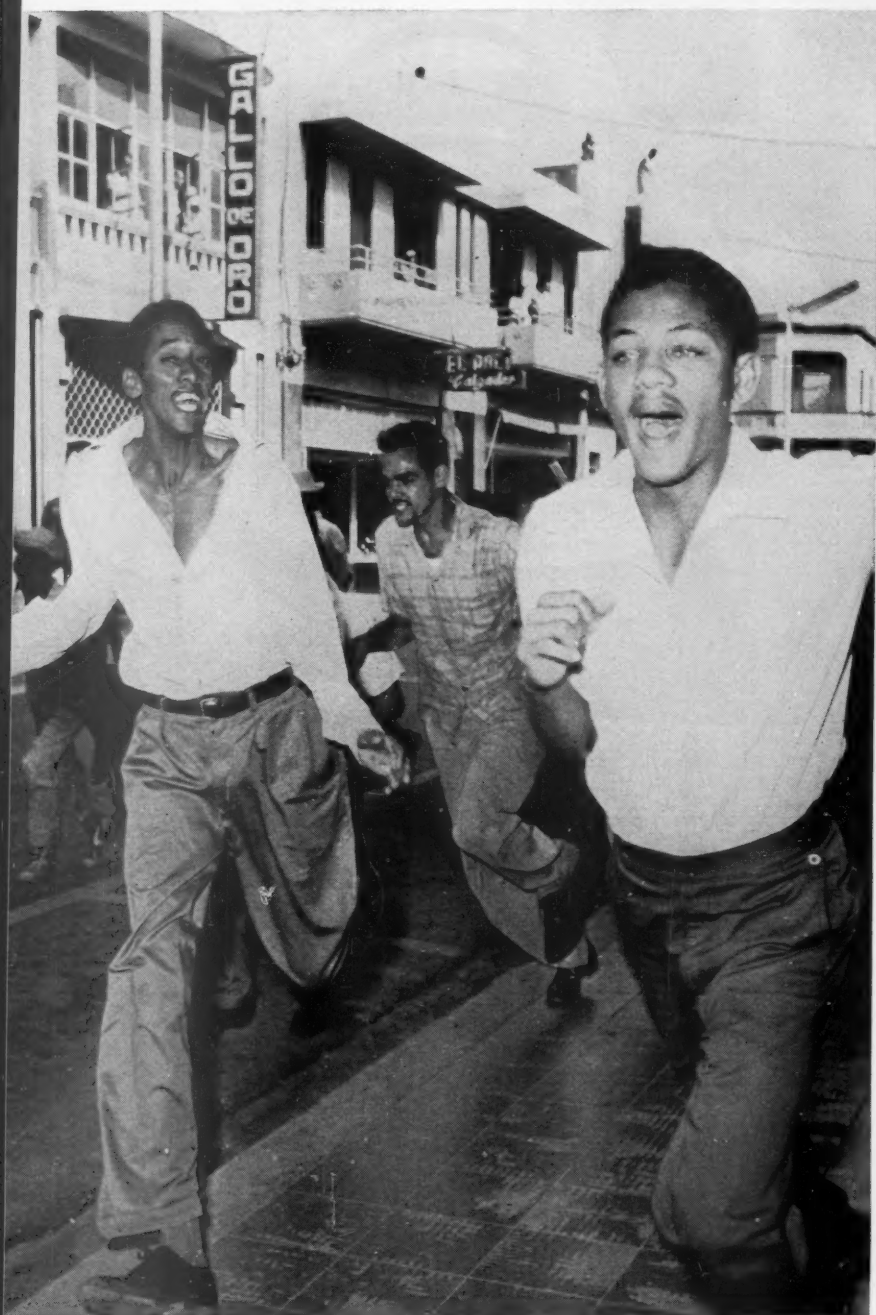
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Dominican future hangs in balance

U. S. seeks to calm strife, foster middle-of-road regime, but turbulence could bring military or leftist dictatorship. Trade and investment outlook is discouraging



Demonstrating Dominicans flee tear gas bombs, after thousands turn out in opposition to Balaguer government; unrest and general strike disrupt country's economy.

The Dominican Republic is caught up in a political maelstrom, following the final elimination of Trujillo power [BW Nov.25'61,p110].

Pres. Joaquin Balaguer has been attempting to form a coalition government until workable political machinery can be set up and elections held. But the government, opposition parties, and the military have not been able to agree. Hopes for a settlement are fast declining.

This week, a riotous general strike called by the opposition highlighted the turbulent situation. It could bring either of two real dangers in its wake:

- Reversion to a military dictatorship similar to the rule of the assassinated Generalissimo Rafael Trujillo.

- Emergence of an extreme leftist regime akin to that of Fidel Castro in neighboring Cuba. This could result either from a coup taking advantage of the disorder or as a reaction to a dictatorship.

Business outlook. For U. S. businessmen interested in the island nation, the outlook is discouraging, and will be as long as these highly uncertain conditions prevail. If a stable, middle-of-the-road government should pull through, there would be opportunities for trade, investment, and construction projects financed by economic assistance that's sure to come from the U. S. and possibly from international financial agencies.

Substantial private U. S. investment, however, is probably far off, even under the best circumstances. Almost all the personalities prominent in the current power struggle are committed to a "mixed" economy, with strong government influence in business affairs.

All this assumes, of course, that a moderate and stable government evolves—a highly dubious assumption at present. There has not been a real, sweeping revolution. If it should erupt, all bets are off.

U. S. aims. At this stage, U. S. policy aims at getting the contending factions to calm down and start talking again. The threat of U. S. intervention remains in reserve.

This would cause problems in the



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rest of Latin America. But the real test of U.S. power and diplomacy would come if a pro-Communist government comes to power. Then, the Dominican affair would assume equal proportions with the Cuban question.

I. Uncertain politics

With the Trujillos out, the political line-up looks like this:

- Pres. Joaquin Balaguer and his colleagues. Balaguer was Trujillo's hand-picked choice for the presidency and remained in office after the dictator was shot. He has tried to institute reforms but is too tainted with the Trujillo stigma to exercise wide influence.

- Three major opposition parties, the largest of which is the National Civic Union led by Viriato A. Fiallo. These parties include middle class, intellectual, and professional elements, many of whom have returned from long exile. They vary in the political spectrum from moderate right to left. Fiallo has shown himself during the past week to be politically inexperienced and inept.

- The radical left, both within and without the Dominican Republic. So far, Communist elements within the country have not been much in evidence, although some National Civic Union members are suspected of leftist leanings. Most leftist activity has come from Cuba, the source of inflammatory radio broadcasts.

- The military. Real power today is held by Maj. Gen. Pedro Rafael Rodriguez Echevarria, head of the armed forces, who led the final ouster of the Trujillo family. He is violently anti-Communist but critics note that his clan of seven brothers has behavior patterns similar to those of the Trujillo family. Rodriguez Echevarria has already placed at least one brother in a high government post.

Interim hope. From Washington's point of view, the best that can be hoped at this point is that the contending parties, after a cooling off period, will agree to an interim junta including representatives from the parties, the military, and the influential Roman Catholic Church. This interim regime would hold power no longer than six months, then call elections.

II. Unsettled economy

At the moment, the Dominican economy is in a disordered state. Not only did the Trujillos skip out with substantial sums of government money, but in the later years of the dictatorship Trujillo seized enter-

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prises and took other reprisals against the business community.

U.S. companies with operations in the Dominican Republic have been "riding it out" for the past few months and will continue to do so. One company spokesman answered a question about recent business conditions with a succinct "lousy." A spokesman for the South Puerto Rico Sugar Co., which produces a third of the republic's sugar, said sourly: "We don't know anything more than we read in the papers."

The current unrest and general strike have further crippled the economy, although the effects are felt mainly in the cities.

Balaguer's moves. To gain popular support, Balaguer has ordered price cuts for a number of consumer goods, including gasoline and codfish (a staple food). For businessmen, he has decreed a 50% forgiveness in unpaid back taxes.

Longer-range, Balaguer has indicated that he will undertake basic reforms, if allowed to remain in office. He has retained agronomist and economic planner Carlos Chardon to map out a pilot economic development project and agrarian reform. Chardon is the architect of the Puerto Rican economic program.

The government this week moved into 35 firms in which the Trujillo family had an interest, including the cigarette monopoly, a cement company, a paint company, and a bagasse mill. It also took over Trujillo's \$160-million Azucarera Haina sugar empire, which Salvador Ortiz, the leading economic figure in Balaguer's administration, wishes to keep for several years to insure revenues for a public works program.

U.S. aid. The U.S. has some tempting economic incentives to offer in its attempt to midwife the birth of a middle-of-the-road government. If an acceptable interim regime can be established, missions to assess the country's needs will almost certainly be dispatched from the Inter-American Development Bank (IADB) and the Agency for International Development (AID), the State Dept.'s new economic assistance unit. Low-cost housing, power projects, and bagasse mills are the most likely objects of attention.

The Administration also would most likely give the Dominicans a share of the Cuban sugar quota. This could earn the nation \$40-million.

Economic sanctions would probably be removed by the other Latin American nations to ease the shortage of parts and foodstuffs. A standby credit from the International Monetary Fund is also possible. **End**

French government divided on how to meet wage-price pressures

Wage and price pressures are undermining France's economic stability, causing the first real split between the government and French industry, and a split in the government itself.

Late last month, a nationwide utilities and transportation strike shut down French industry for the third time since summer. Striking state workers want the government to match the higher wage increases being doled out by private industry.

Meantime, prices, after a long period of near stability, suddenly have begun to rise. The result is that the French price advantage, stemming from the 15% franc devaluation in January, 1959, now is almost wiped out.

These issues have brought the first open clash between the Gaullist government and private industry. They also have stirred up an inter-Cabinet argument over financing new government wage increases.

For one thing, Premier Michel Debre is annoyed at the way private industry has given in to wage demands. The government earlier this year requested industrialists to keep a 4% lid on wage grants. Instead, private industry wage hikes during the year have averaged more than 10%—quite a bit more than the increase in productivity. Thus, the gap between private and state pay envelopes roused the nationalized workers.

For the moment, state workers are accepting the 2% to 3% wage increases offered them, but more demands after the Christmas holidays are a certainty.

Debre is having a hard time financing even these modest pay increases, amounting over-all to some \$120-million. He wants to raise most of the money via new taxation, particularly on private industry. For example, taxes on cash reserves may go up 1% and companies, under another proposal, would be required to include interest on their government bonds when toting up annual profits for tax purposes.

The Finance Ministry, on the other hand, would like to see most of the government wage increases covered by budgetary economies.

Although this inter-Cabinet squabbling still is going on, the smart money in Paris is betting on Debre.

Congressional study outlines likely effects of British entry into EEC and freer trade

Washington is looking closely at the long-range economic and political implications of Britain's joining the European Economic Community (EEC) and of a more liberal U.S. trade policy. A new study for the Joint Economic Committee of Congress, prepared by Robert R. Bowie of Harvard and Thomas Geiger of the National Planning Assn., sketches out a few of them. The report includes analyses of EEC itself, British entry, and the implications for U.S. business.

British membership in the EEC, the study says, would create pressures for a European Monetary Union or some similar monetary arrangement. The incentive for the British would be access to the \$15-billion in reserve funds now held by the Six. This would afford welcome additional backing for the vulnerable pound sterling during the transitional period, when Britain seeks to solve its balance-of-payments problem within the more competitive, larger European market.

Pressures for tighter monetary arrangements automatically would put pressure on the U.S. to seek a new Atlantic monetary system as a substitute or supplement to the European arrangements. The reason: If the dollar were left out of a new system, it would be exposed to the full brunt of speculative forces that now are shared by sterling, and that may be accentuated as the U.S. moves toward freer trade.

Free trade and a new monetary system would require close harmony among the domestic economic policies of the Atlantic nations. Evolution in these directions should result in increased economic stability. This, in turn, should benefit underdeveloped countries by assuring them of a more regular trans- fusion of capital from the industrial nations.

Netherlands will build its first primary aluminum works

Billiton Maatschappij, a leading industrial concern of the Hague, is planning to erect the Netherlands' first primary aluminum works. Initial capacity of the \$48-million plant will be 60,000 tons per year. The plant will be built at Delfzijl, near large reserves of natural gas.

Billiton Maatschappij owns mining rights to huge bauxite deposits in Surinam, South America. Because of high freight rates, it probably will have the bauxite processed into alumina at the mines.

In previous ventures, the Dutch company has teamed up with Olin Mathieson Chemical Corp., a Swiss aluminum company, and a West German concern. They may also join in the new project.

Britain and Japan dicker on trade pact

An Anglo-Japanese trade treaty is taking shape in London negotiations and may be ready next year.

Britain now seems ready to waive discrimination against Japanese goods, as the U.S. has done, and grant Japan most-favored-nation treatment. But, in return, Whitehall wants safeguards against disruption of British trade or serious injury to domestic industry.

Japan is reported willing to accept such terms, subject to detailed negotiations. A list of products may be drawn up on which Britain may at any time put quantitative restrictions against Japan, provided Britain can show disruption or injury. Japan would ask for similar safeguards for a different list.

Keeping closer tabs on costs

Responsibility reporting is a growing accounting method.

It is quicker to spot deviations in cost trends,

but it calls for clear lines of management responsibility

Traditionally, accountants have viewed their role as providing the owners of a business with a fair account of company finances.

Accountants still spend a lot of time providing stockholders and potential stockholders with a consistent measure of profits and finances. Increasingly, however, accountants—under the prodding of the big national accounting firms—are rejecting the notion that their primary effort ought to be directed at that kind of reporting. Rather, they are focusing on internal reporting systems designed to tell management what's going on almost before it happens.

This shift to internal reporting is only recently having a wide impact on the way corporations keep their books. The emerging system of accounting is called responsibility reporting. More and more, companies are adopting it as one of the best methods of keeping a check on costs—and profits.

Simple idea. The concept of responsibility reporting is simple and elegant. It's aimed at giving management a complete financial profile, so it can see quickly where costs are getting out of line, and where it should be expending more funds.

But adopting a system of responsibility reporting isn't as simple as it sounds. Nor will it work miracles. Accountants, in fact, are wary about claiming too much for it, and they stress that the system requires a good deal of education before it can be used most effectively.

Basically, responsibility reporting involves giving each manager, from foreman to president, information about the costs for which he is responsible. Moreover, as cost data goes up the chain of command, details drop out, which speeds the flow of information. But companies that adopt a system of responsibility reporting usually revamp their accounting setup. Take three examples:

▪ The Pennsylvania RR is putting through a complete overhaul of its accounting system, including installation of responsibility reporting.

This project may involve the installation of two computers and cost well over \$2-million before it is finished.

▪ Celanese Corp. of America has revised its reporting procedures to include responsibility reporting. The result is that monthly operating statements that used to go out in the third week of the month are now out by the fifth working day. Moreover, Celanese executives are getting a weekly projection of monthly earnings against which they can check actual results.

▪ Metro-Goldwyn-Mayer, Inc., has a new responsibility reporting system that Vice-Pres. Robert H. O'Brien claims will cut costs as much as 12%.

Data processing. These new reporting systems all involve high-speed data-processing equipment. But automation and the shiny new computer hardware aren't the keys to responsibility reporting. What is important is the way the Pennsylvanians, Celanese, and MGM are restructuring the flow of information in their organizations in order to give management effective control over costs.

Says David W. Chappuis, Celanese controller, "We have stopped trying to convince top management that we know how to add. Instead, we're concentrating on being a financial intelligence center for top management. We pinpoint responsibility for costs; then if they get out of line, we can take action quickly."

I. Need to know

Obviously, if you want to design a good management reporting system—whether it's based on responsibility reporting principles or not—you first have to find out what management needs to know to run its business.

According to Arthur Andersen & Co., one of the first CPA firms to push responsibility reporting: "We have to know what is needed and the form in which it will be the most useful, and then we design our systems around this."

"To assume, for example, that all

costs are either useful, or even interesting, is a great mistake. To assume that all data as to production are necessary and need transferring is just as great a mistake. Some pieces of information are not worth recording."

"Recording the wrong information or transferring useless information is not only a waste of time—it may be, in fact, extremely misleading and lead to expensive errors in decision-making."

Basis for decision. Here's an example of what Arthur Andersen is talking about: Say that a company is spending \$100,000 a year for research and development. This could represent salaries for 20 lab assistants each at \$5,000 a year—or it could be spent for two or three top scientists.

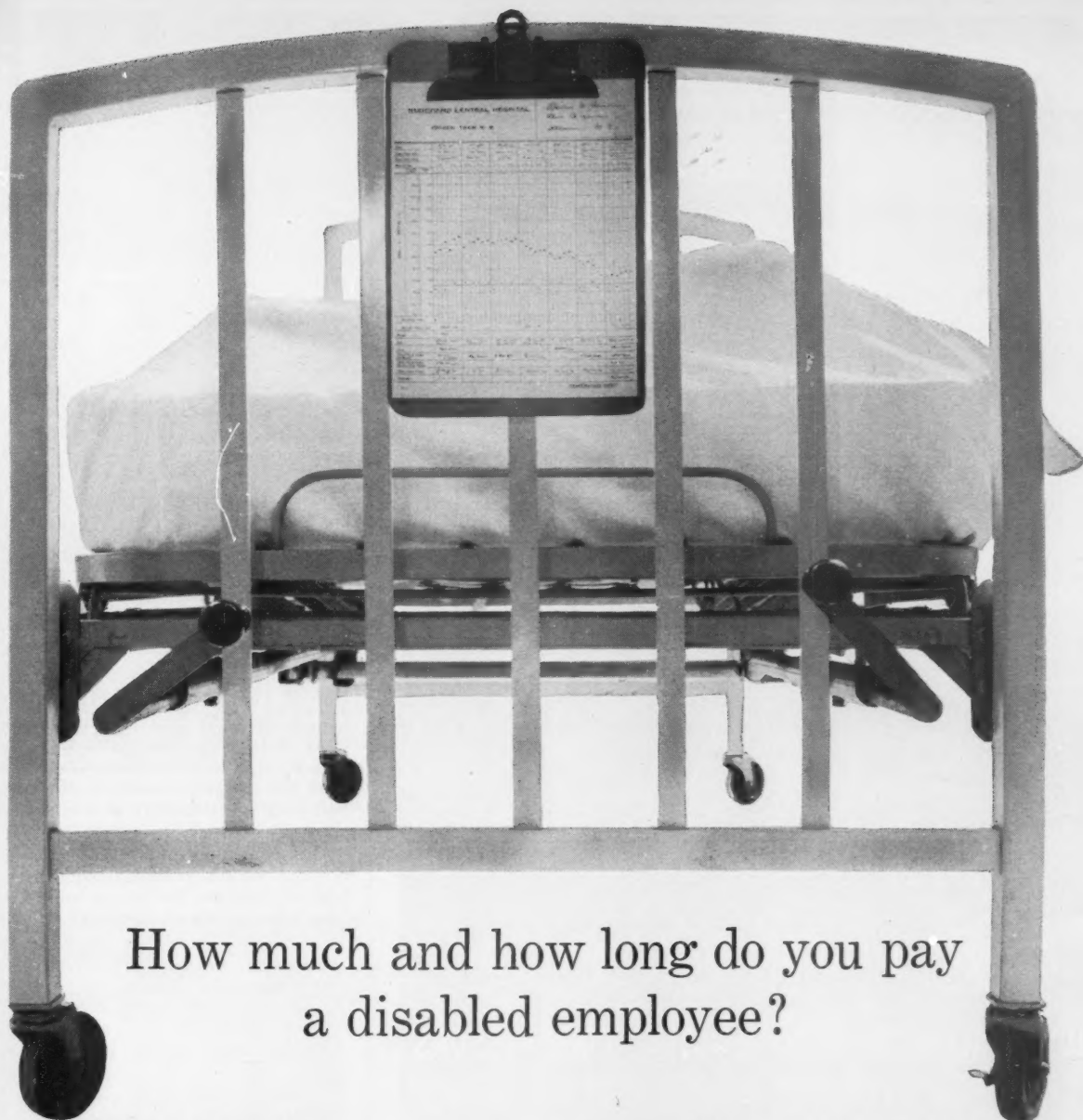
In this case, what management needs to know in evaluating its R&D program is not the total amount spent but how it is being spent, and how this spending is related to the technical difficulty of the project.

Similarly, in the railroad and public utility industries, where most accounting practices are set by public regulatory agencies, internal reporting and control have tended to follow the form prescribed for external reports—usually with an unfortunate effect on profit margins, which is why the public utilities, in particular, have been quick to adopt responsibility reporting.

Misleading. "Uniform systems of accounts often leave management with a totally confused picture of operations under their control," says a CPA. "The expert accountant may understand what is going on, but at the operational level, the individual supervisor has trouble relating the language of accounting to his specific task. And for top management, there's often so much detail that the important facts get buried."

II. How it works

The basic design of any responsibility reporting system follows a company organization chart. Instead



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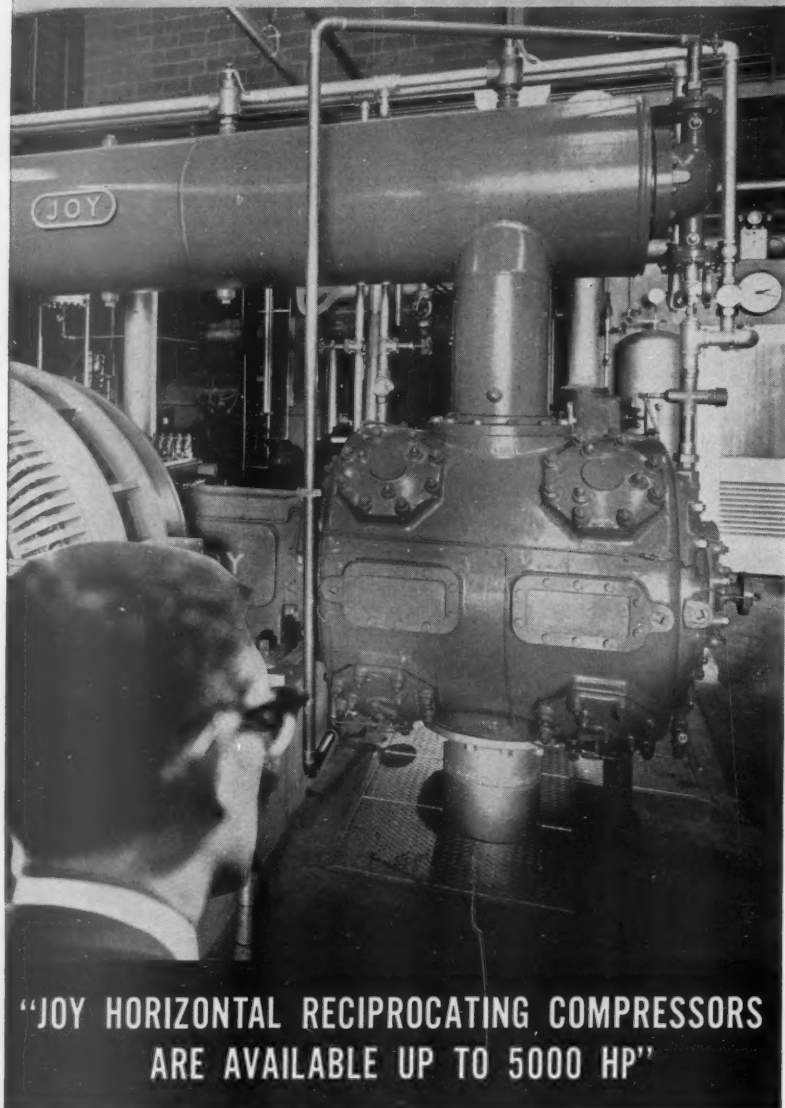
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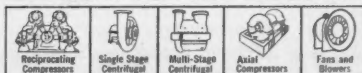


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of collecting cost data by product line, or territory, or job lot (as in conventional accounting methods), expenditures are summarized by responsibility.

Conventional methods of data collection continue, of course, as a guide to pricing decisions, for shareholders' reports, and the like. But the information that management needs to control the day-to-day business is organized along lines of responsibility within the company.

Tangled lines. This may sound easy, but it doesn't always work out that way. The trouble is that many companies don't have clearly defined lines of responsibility among their executives. And if responsibility for costs is diffused, there's not much point to a responsibility reporting system.

The result, more than once, has been that a company which innocently went to its accountants for "a little help with our reports" has found instead it had to make a complete overhaul of organization structure.

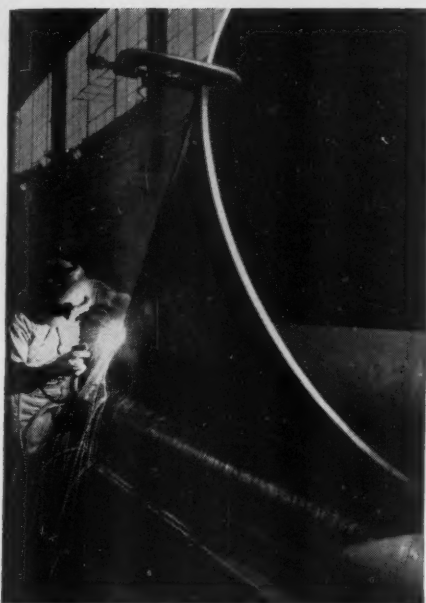
One-man show. Kenneth S. Axelson of Peat, Marwick, Mitchell & Co., a big CPA firm, recalls a company in upstate New York that began to get into trouble about the time the chairman—who in 40 years had built his company as a one-man show—was ready to retire.

The chairman finally realized that not one of his potential successors had his intimate feel of the business. Moreover, he found out that both the information and the organization that would be needed to carry on were lacking. "In the end," says Axelson, "he had to substitute methods for men."

Better yardsticks. But merely getting information is not enough for effective financial control. Performance has to be measured against a yardstick before it can be evaluated. This is why, when companies install responsibility reporting systems, they almost always overhaul their budgeting procedures as well. Indeed, the budget is usually recast so that for each level of cost responsibility there's a corresponding estimate of what ought to be spent in relation to a given volume of production.

Then, armed with a guide to what ought to be happening, management can move quickly when it spots variations from the standard.

Overhead costs. In practical terms, most accountants feel that responsibility reports—and the related budget items that are used as a standard of performance—should be limited to costs for which a manager is directly responsible. Arbitrary al-



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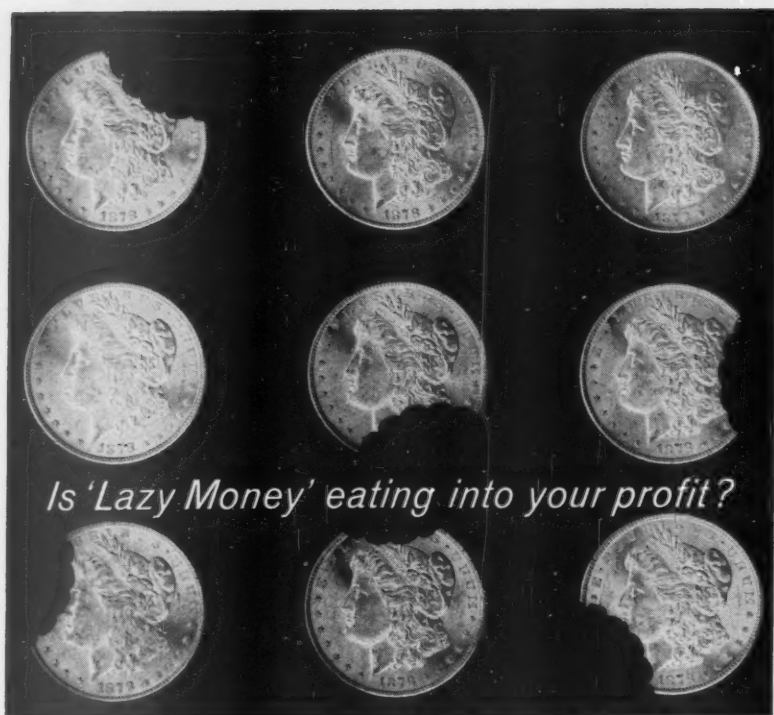
The John Wood Company, St. Paul, Minnesota, makes Stainless Steel milk cans and sells or leases them to dairies for use in milk dispensers. Even after 20 years of hard usage a Stainless Steel milk dispenser can will still be in excellent shape. And it will have a perfect attendance record—not one day's work lost . . . and no leakage. It will keep milk clean and pure. That's because Stainless Steel can be thoroughly cleaned thousands of times and still retain its smooth, impervious surface. You don't have to baby Stainless Steel; it's strong. Stainless Steel milk cans mean economy in the long run. There are practically no replacement costs because Stainless Steel milk dispenser cans just won't wear out.



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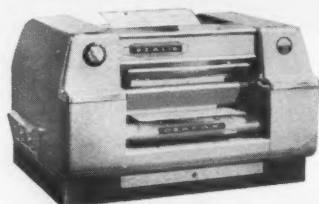
You can ship or contain corrosive chemicals in Stainless Steel tank cars with no worry about contamination. Many chemicals that eat away other metals have no effect on Stainless Steel because of its smooth, corrosion-resistant surface. There's less danger of spoiling one product with residue from another because of Stainless Steel's ease of cleaning. And because Stainless Steel is so strong, it can be used in thinner, lighter gages so over-all weight is reduced and payload increased. The car shown here was built in 1956 by General American Transportation Corporation and is still in excellent condition.





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locations of overhead, which play such a big role in most cost accounting schemes, are often a waste of time in responsibility reporting.

III. No cure-all

At Celanese, responsibility reporting developed at a time when the company was diversifying rapidly and was decentralizing its management. Between 1951 and 1960, for example, its volume in its traditional business of spinning acetate yarn was virtually unchanged, but its volume of chemical sales jumped from \$23-million to \$61-million (22% of total sales) and its plastics division went from \$28-million to almost \$58-million (21% of the total).

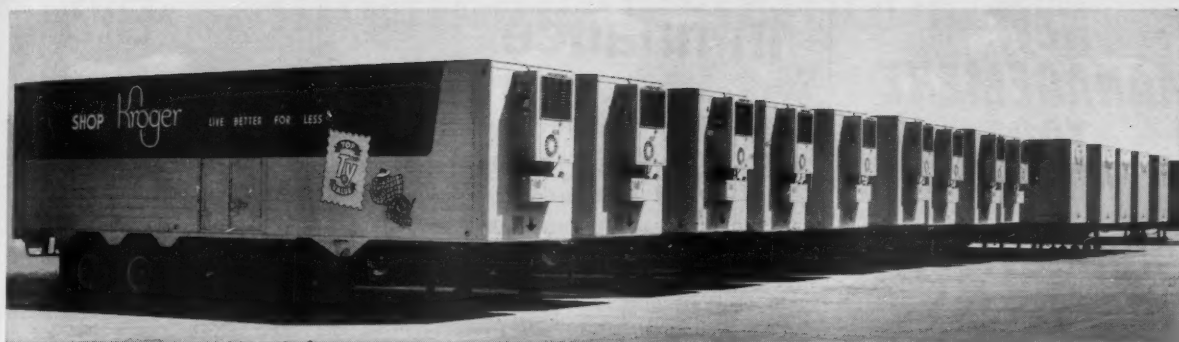
Filling a need. To keep control of this expanding and increasingly complex operation, new financial controls were needed. Responsibility reporting was the principal answer. Even with tighter financial control, Celanese has had tough sledding. Despite the expansion in chemicals and plastics, net after taxes last year was only \$19.9-million, compared with \$24.8-million in 1951.

This points up an important fact about any system of financial controls—it will alert management to the fact that something is awry, but it won't correct the problem. For instance, top management at Westinghouse Electric Corp., which has a highly sophisticated responsibility reporting system [B/W Nov. 19'60, p98], has been in the uncomfortable position of knowing for months that profits were going into a steep slide but of being unable to do anything about it.

In a squeeze. Westinghouse knew that lower sales—and prices—of heavy electrical equipment would squeeze profits. In fact, profits for the first nine months dropped from \$1.71 a share in 1960 to 67¢ this year. Even though the extent of the profit squeeze was recognized late last year, Westinghouse management decided to take the lower profits rather than damage the company's research and engineering staff through drastic cutbacks.

"We weren't able to do much about the profit squeeze," says Vice-Pres. Marshall K. Evans of Westinghouse, "but we were 10 times better off knowing what was coming before it happened."

Chappuis echoes this idea: "My goal is to know by the 10th of the month how we're going to come out for that month, within a margin of about 5%. We may not be able to do anything about the result, but we're a sight better off than trying to operate blind." **End**



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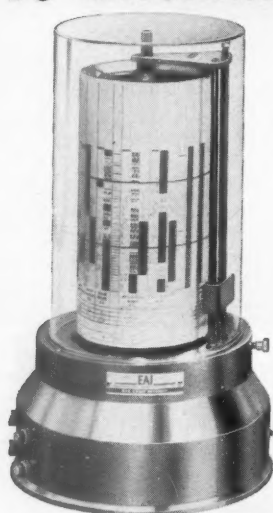


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In finance

BW

IRS drive moves into high gear to curb overseas tax abuses by U. S. companies

The Internal Revenue Service is stepping up its drive to curb tax abuses overseas by American corporations and individuals. The agency has formed a new International Operations Branch to oversee foreign operations of U.S. corporations. And it is considering adding to its five permanent watchdog posts overseas.

IRS also is running a special audit of all companies with foreign operations. So far, it has completed some 1,100 reports on 6,000 foreign subsidiaries. According to Commissioner Mortimer M. Caplin, the agency's main concern is tax evasions, which "include sham or paper corporations with no real business purpose or function, unrealistic sales or purchase prices, and artificial salaries, rents, royalties, and allocations of expenses."

IRS' audit is expected to provide fresh ammunition for Congressional critics of "tax haven" operations. Early this year Pres. Kennedy unsuccessfully sought Congressional action to limit abuses and the proposal is expected to be presented again next session.

S&Ls to get a new set of rules on switch to stock ownership

The Federal Home Loan Bank Board, which supervises the activities of federally insured savings and loan associations, moved this week to make conversions of mutually owned S&Ls into stockholder-owned S&Ls more difficult.

Alarmed by a rash of conversions by Illinois S&Ls—principally to get a play in the stock market—FHLBB spelled out new rules under which conversions of federally chartered S&Ls can take place, and proposed to extend its control over conversions of all insured associations, including those with state charters.

The board would determine the type and amount of stock to be sold. Conversions have been under fire on charges that sponsors get management control at a substantial discount from net asset value. The board would try to stymie this by making sure the amount of stock sold is equal to at least 5% of an S&L's worth.

S&Ls generally were concerned about the Illinois conversions, because the institutions' claims for continued tax advantages stem from their mutuality. The trend to conversions—such as in Illinois—weakens this case.

SBA drastically cuts lending by lowering limit on individual loans

The Small Business Administration has drastically curtailed its lending by reducing the limit on individual loans to \$200,000 from \$350,000 (25% of the dollar amount of SBA loans has been in the \$200,000 and over category). The effect of the move should be to reduce lending by about 25%; it also indicates that less money will be available to finance small business investment companies.

According to SBA officials, loan demand this year has far exceeded expectations, and the agency was rapidly running out of funds. Its revolving fund—from which loans are made—had dropped to around \$80-million on Dec. 1, from more than \$160-million a year ago. Under its new policy, SBA will have \$248-million to spend during the rest of the current fiscal year.

International outlook **BW**

December 9, 1961

New proposal to share nuclear arms with NATO

Pres. Kennedy's efforts to strengthen U.S. relations with West Europe go beyond tightening economic and trade ties (page 25). Quietly, Washington is working up a plan that may alter radically the military relationship between Washington and its NATO allies.

In its most daring version, the new arrangement would give NATO, or a group of its members, nuclear power independent of the U.S. A less spectacular, though still significant, version would permit European countries to share control of the NATO atomic strike power now exclusively in U.S. hands.

Secy. of State Dean Rusk may put the proposal before NATO's annual ministerial meeting in Paris next week. If the NATO ministers concentrate mostly on Berlin and possible East-West negotiations—as expected—Rusk will take soundings on the U.S. plan outside the meeting room.

Will NATO go along?

Very likely, Kennedy's NATO proposals will be built around a NATO intermediate-range ballistic missile IMBM force. As Kennedy hinted in his Ottawa speech in May, such a force—probably seaborne—would be “truly multilateral in ownership and control.”

Of course, this would require Congressional approval. The law now prohibits our relinquishing control of nuclear warheads. Under the new plan, it would be possible for European NATO members to outvote the U.S. on using the IMBM force.

When it comes to financing, there's a rub. Only West Germany and perhaps a few other NATO nations will be eager to put up the money for such a force. France, on its part, prefers to stick with its own atomic strike force program.

So it's likely that any IMBM program will involve only a fraction of the alliance's 15-nation membership. The force would be built around U.S.-made missiles and warheads.

Where plan originated

In its attitude toward NATO as a nuclear power, the Kennedy Administration in a sense has now arrived at a point the Eisenhower Administration left off a year ago.

At last year's NATO ministerial meeting, Secy. of State Herter made several suggestions for giving NATO nuclear responsibility. At first, the Kennedy Administration was lukewarm on the idea. Berlin and other cold war events have led Kennedy to a change of views.

U. N. victory in Congo will bring new problems

In the Congo, the U. N. attack on secessionist Katanga Province was making headway at midweek. If successful, the U. N. effort will mean:

- The end of the last anti-Communist bastion in the former Belgian colony.

- A unified Congo under the central government of Premier Cyrille Adoula in Leopoldville. Himself a “moderate,” Adoula is strongly influenced by a powerful group of pro-Soviet Lumumbists in his coalition government.

To run Katanga Province, chances are that Adoula will appoint Egidie Bochely-Davidson, a Moscow-leaning follower of the slain Patrice Lumumba, or someone of similar political leanings. Bochely-Davidson was

International outlook Continued

named to the job in September, during the brief period in which the U.N. reported it had control of Elisabethville, the Katangan capital.

Ironically, U. S. policy backed the U. N. attack to the hilt. American planes transported troops, supplies, ammunition. Washington figures that a U. N. victory over Katanga will strengthen the hand of "moderates" in Leopoldville.

Castro's pledge to Red flag stirs new worries

Besides the Dominican Republic (page 72), the U. S. is involved in two other deeply troubled areas in Latin America:

- **Cuba.** Fidel Castro has openly admitted his belief in and allegiance to the international Communist movement directed from Moscow. This week, the Organization of American States made its first tentative move toward concerted hemisphere action against the Castro regime.

- **Brazil.** The never-solid government of Pres. Goulart and Prime Minister Neves is shakier than ever [BW Nov. 25 '61, p. 72], causing concern that the Latin American giant may go the way of Cuba. Brazil has been counted on as a mainstay of the Alliance for Progress.

OAS action against Cuba?

The OAS this week voted to hold a foreign ministers conference in January to consider action against Cuban subversion. Washington sees this as a real turning point against Castro in Latin America.

The vote was 14 to 2, with Brazil and Argentina abstaining, and Mexico voting against. The big three are still less than enthusiastic about joint action against Castro and more concerned with the threat of "intervention."

U. S. officials believe that the full impact of Castro's admission has not yet been reflected in Latin American policies. They hope that by January a delayed reaction will lead to stronger support for measures against the Castro government.

If 14 governments vote for sanctions against Cuba in January, that will be enough to bind all OAS members. Failure of important Latin American members to abide by the decision could lead to the collapse of the inter-American system and the political framework of the Alliance for Progress.

Thoughts of unilateral U. S. intervention in Cuba have been put way back on the shelf. But if leading Latin American governments flout a major OAS vote against Cuba, they could be revived. U. S. officials this week are almost certain that this won't happen.

New fight over foreign capital

In Brazil, the weak Tancredo Neves government is trying to spike a leftist-engineered squeeze play against foreign capital, which, opponents warn, threatens "national suicide."

The House of Deputies has passed a bill that precludes entry of foreign capital and would subject \$2-billion now invested in the country to slow strangulation. Neves and his colleagues are desperately trying to have the bill amended or killed in the Senate.

Final passage of the bill could open the way to "Cubanization of the Brazilian economy," the announced objective of Brazilian Communists.

At midweek a compromise was in sight—but even that might be one foreign businessmen couldn't live with. Whatever the outcome, some damage is already apparent. Millions in foreign investment plans have been suspended, the cruzeiro has fallen to a record low, and the faltering Neves administration has suffered a further decline in confidence.

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LABOR

Labor's alliance is unhappy, but expedient

Rival departments in AFL-CIO increasingly are running into rows on craft vs. industrial jobs and other issues

Yet, despite the bitter internal strife, the merger is expected to hold together out of necessity

The factions are likely to try even harder to promote special interests through their departments



Neil J. Haggerty is spokesman for powerful Building Trades unions.



George Meany, in the middle, tries his best to minimize disputes of factions.



Walter Reuther, for industrial unions, accuses crafts of encroachments.

The men who lead the powerful factions of the AFL-CIO this week brought their bitter differences out into the open, and gave a dramatic picture of the complex forces that make up the big labor federation.

In a preview of the internal divisions to be aired at the AFL-CIO's fourth constitutional convention, just getting under way this week in Miami Beach, the opposing union forces let loose a barrage of charges and countercharges on labor's failures in organizing, on legislative goals, and in a number of other areas.

The platforms were the conventions of the individual AFL-CIO departments. The sharp debate started two weeks ago at the convention of the Industrial Union Dept. headed by Walter P. Reuther. It was picked up by Neil J. Haggerty, president of the rival Building & Construction Trades Dept., and carried on this week at meetings of Metal Trades and Maritime Trades Depts.

Unhappy alliance. All sides prepared to take their grievances to the 10-day AFL-CIO convention, which started its sessions Thursday. What helped to release the pent-up dissatisfactions, actually, was a feeling that the rival factions are now part of a permanent, if unhappy, alliance.

The main reason for continuing the unfriendly alliance was illustrated with the scheduled convention appearance of the man labor helped to put in the White House—Pres. John F. Kennedy. AFL-CIO leaders told the convention: "Whatever forces may have been at work in the 1960 Presidential election, it is a simple fact that Pres. Kennedy could not have been elected without the

broad base of the continuing COPE registration program." (Committee on Political Education is the federation's political arm.)

Changes ahead. While the AFL-CIO now seems certain to remain a merged labor movement, its form seems certain to change. The big departments, described in the AFL-CIO constitution as "subordinate" to the parent federation, are likely to become focal points of new thrusts by organized labor into the ranks of the unorganized and at management, Congress, or the Administration.

Even as the conflicting union forces anticipated convention warnings from AFL-CIO Pres. George Meany to reconcile their differences, they were resigned to the fact that angry internal conflicts will continue in the AFL-CIO and that unions with mutual interests must draw closer together. And Meany, as he sought to dampen the fires in appearances before departmental meetings, noted that "strife within the trade union movement, rivalry between unions, is nothing new. In fact, it is sort of built into the trade unions' structure."

The acceptance of permanent division is likely to find AFL-CIO department leaders Reuther and Haggerty, James A. Brownlow of the Metal Trades, and Paul Hall of the Maritime Trades relying less on parent AFL-CIO and more on their own individual groups.

I. The federation's form

With the AFL-CIO merger in 1955, the CIO's unions joined in an Industrial Union Dept. to counter

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Meany's leadership will be put to its most critical test during the convention...

Story on page 97

the AFL's existing Building Trades and Metal Trades craft divisions. Their purpose was to further their individual interests while pushing the broad labor cause.

But in the six years of merger, the federation has had a stationary membership, its treasury has been running in the red, and its legislative efforts have been marked by such defeats as passage of the Landrum-Griffin reform law and failure to win amendments to the Taft-Hartley Act. The factions within the federations are blaming these defeats on one another—and conciliation appears unlikely.

Why departments? The different interests of unions are the principal reasons for the federation's departments. Aside from broad labor legislation, their goals in Congress do not necessarily coincide in various fields—what may be good for the crafts could hurt industrial unions. Also, bargaining patterns vary industry by industry. And concerns with Administration activity may be almost as wide and as different as the government itself.

Thus, while Hall's Maritime Trades Dept. will fight the issue of the "runaway flag" or foreign registries in shipping, the Building Trades will press for Davis-Bacon law changes dealing specifically with construction wages; Reuther's industrial unions will seek relief from present government policies on "emergency" disputes, and the Metal Trades will direct energies to workers' benefits under government shipbuilding contracts.

The hope in the AFL-CIO merger was that these separate programs could be promoted through the full federation. However, union interests conflict in many areas, and divergent positions may be taken—weakening labor's stand.

II. The federation's fight

The most dramatic division, but by no means the only one, is the traditional craft-industrial conflict. Reuther's industrial unions, facing declining membership, challenge the entrance of Building Trades unions into plant maintenance work. They argue that the crafts are making subrosa deals with construction em-

ployers to take work away from their members.

During the AFL-CIO convention, Reuther's forces will propose a compulsory arbitration plan to settle jurisdictional fights as the only permanent solution to job contests.

Perennial battle. Last week, Hagerty's Building Trades unions turned down the Reuther proposal. They said flatly that union autonomy is the core of the union movement, and any proposal that would invade an individual union's rights could not be accepted. Their alternative plan provides for taking jurisdictional tangles to the AFL-CIO executive council for solution. But Reuther's IUD has protested that this plan hasn't worked in the past and there is no reason to hope that it might succeed in the future.

The Metal Trades Dept. includes many Building Trades unions and is allied with them in most AFL-CIO disputes. It, too, has running conflicts with industrial unions and often opposes them in elections.

The Maritime Trades Dept. has no direct conflict with craft and industrial unions, but it is wracked by internal division. Leaders of the two largest shipping unions—Paul Hall of the Seafarers' International Union and Joseph Curran of the National Maritime Union—are bitter rivals. Earlier this year, Curran pulled NMU out of the Maritime Trades Dept. and set up an offshoot Maritime Committee.

III. The outlook

The conflicts are due to erupt in the convention proceedings next week. Meany's leadership will be put to its most critical test, as he seeks to play down AFL-CIO divisions as minor compared with labor's broader successes since 1955.

Tough attitude. Meany—about to enter what might be his last term in office—showed an inclination to speak out more sharply than ever before, stepping on toes here and there and raising temperatures of Reuther and other key union leaders. It was obvious that Meany, like others, realizes that the merger exists of necessity and that the opposed sides do not intend to go to an extreme that would break it up. **End**

Production workers accept pay cut to keep plant from closing

Three hundred and fifty production workers at American Can Co.'s Geneva (N.Y.) machine shop have voted to take a 25¢ pay cut—and pass up another 12¢ due them last week under terms of their union contract—to keep the plant from closing. Earlier, 175 workers in the company's San Francisco machine shop also voted to skip the 12¢ increase.

Both groups belong to the International Assn. of Machinists, which took no official position on the wage cut proposal.

American Can is the biggest employer in Geneva, a city of 18,000. In addition to the 350 production workers, it employs 150 designers and white-collar workers. Geneva recently lost 255 jobs when the Shuron Optical Co. moved the bulk of its production to South Carolina, and the Geneva Forge Div. of Ekco Products Co.—which employs another 225—has tentative plans to move to Ohio.

A "long-range downturn" in orders had affected the shop's volume, cost, and profit position so drastically that substantial reduction costs would be necessary to continue operating, company officials told the union.

The production workers voted to reduce average hourly wages from \$3.10 to \$2.85—by taking a 15¢ cut next Feb. 1 and another 10¢ April 15—and to cancel a 12¢ increase due Dec. 1 under their 1959 contract. The new agreement runs to Mar. 1, 1965, with wage reopeners in 1963 and 1964.

The new pay levels are in line with scales in the shop's production and market areas, and "as high or higher" than the local average, according to a joint company-union statement. No wage decrease was negotiated for the San Francisco shop because wages there are in line with pay for similar work in the market area, the company said.

ILGWU plans farm investment, housing to get funds of Pittsburgh building trades

Two labor organizations announced broadened investment programs this week.

The International Ladies' Garment Workers' Union will invest an estimated \$25-million annually for four years in Farmers Home Administration insured notes. The Pittsburgh Building Trades Council's unions will finance mortgages to enable low- and middle-income families to buy houses in East Hills Park, an ACTION-Housing, Inc., development [BW Oct. 14 '61, p67].

The ILGWU investment, which will aid family farms, will come from reserves in more than 140 health, welfare, retirement, and severance funds sustained by employer contributions under collective bargaining agreements. The notes bear 4½% interest and are redeemable at par after three years.

The Pittsburgh unions will finance permanent mort-

gages at 4¾% for a 35-year term, insured by the Federal Housing Administration. Council spokesmen said that \$1.5-million had been pledged by member unions, with another \$1-million expected.

Mailers' strike fails to halt publication of Milwaukee Journal

A mailers' strike against the Milwaukee Journal headed into its fourth week with the newspaper continuing publication with non-striking personnel.

The 57 striking mailers, members of an International Typographical Union local, seek changes in wages and fringes. They are supported by 240 printers—also ITU members—and a scattering of pressmen and stereotypers who refuse to cross picket lines.

One ITU member made labor-management history when he interrupted strike activity to attend a Journal board of directors' meeting this week. He is one of six non-managerial employees who sit on the 23-man board of directors. Under the newspaper's employees stock ownership plan, employees—both managerial and non-managerial—own 72½% of outstanding capital stock.

Pressures on European factory wages are all in one direction—upward

European wages appear certain to go up next year.

Dutch wages are due to rise an average 4% as a result of an agreement among government, industry, and the unions. Under a formula established recently, the amount of the raise will be determined by (1) Holland's expected productivity increase, officially estimated at 2%, and (2) the expected productivity increase of the specific industry involved. The past decade will be used as a yardstick for the second factor, which will count three times as heavily as the first.

The Confederation of Swedish Trade Unions plans to ask for a general 6% pay increase, with a minimum of 40 ore (about 10¢), in coordinated negotiations with its counterpart, the Federation of Swedish Employers. Fringe demands, including shorter hours, would bring the total percentage rise sought to 8% to 10%.

West Germany's 14 associations of metalworking firms have acted to terminate contracts Dec. 31, jumping the gun on metalworking unions, which have initiated the termination of past contracts. The move is designed to create a united front against union tactics of pushing demands first against the financially weakest association and then playing one association against another.

The metalworking unions have indicated that they will ask for a 10% increase and six additional vacation days. This is in addition to a work week cut from 44 to 42 hours, which already has been agreed upon. The industry—which employs 3-million of West Germany's 20-million workers—has estimated the unions' total demand at 15.9%.

Betting on the bulls next year

Investment men see higher stock prices for first half of 1962. After that, there's disagreement and uncertainty

The bull market in stocks, which has pushed the averages to an all-time peak this year, will continue into 1962. This is the almost unanimous opinion of a cross-section of top investment men interviewed this week by *Business Week* (pictures). But these experts are also in sharp disagreement about when the bull market will end. Some predict its end next year; others feel it will endure into 1963.

Both the unanimity over the short-term prospect, which covers the next six months, and the divergence over longer-term outlook stem from differing assumptions about the main forces influencing the market.

Switch coming? In the short-term, the consensus is for an improvement in business activity, which will mean higher corporate earnings and increased dividends. This should lead to a continued demand for common stocks. But over the longer term, some are looking for a slowing down of the business boom and a leveling off in profits, which will curb investor appetites for equities.

In fact, a number take the view that there may be a switch into fixed-income obligations in 1962, which were neglected through most of the 1950s when the cult for equities came into its own. William R. Biggs, vice-president and trustee of the Bank of New York, who is widely respected for his investment acumen, points out that if stocks continue to climb there may come a point where the high and safe return offered by bonds becomes "irresistible" compared to the low yield and risk involved in holding common stocks.

Even some of those who think that

the boom in business will exceed expectations are worried about the long-run outlook for stocks. For they feel that a superbloom—or continued pressure on the dollar—would result in much tighter credit and higher interest rates, increasing the attractiveness of bonds.

Need for selectivity. In any case, most investment men lay special stress on a selective approach. Although discrimination in choosing stocks is always important, the experts emphasize that the extremely high and vulnerable level of the overall market makes selectivity essential.

Thurston P. Blodgett, vice-president of Tri-Continental Corp., the nation's largest closed-end investment company and himself one of Wall Street's most experienced and astute institutional managers, explains that selectivity involves not only "the immediate prospects for gain" but also an appraisal of both "risks involved in case of adversity and the longer-term outlook." And Standard & Poor's Lewis L. Schellbach, another Wall Street veteran, looks for a "selective and halting" rise, with shifts out of stocks that are already fairly high in relation to earnings—like the utilities and food companies—to those that do not yet fully reflect improved earnings prospects.

I. Short-term accord

Although investment men differ and are somewhat cloudy about long-run prospects, their positive agreement over the short-run is somewhat surprising. It's natural to

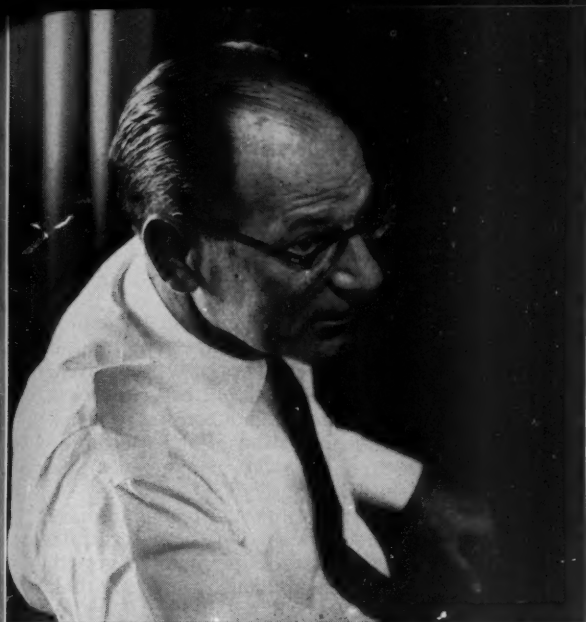
expect more accord over the immediate outlook, but a virtual meeting of minds is rare. In late 1959, for example, many market men accepted the soaring 60s as a reality, and felt that stock prices would break through to new peaks; others, however, were much more cautious. And last year, there was a split between those who thought the recession would be short-lived and felt that stocks would rebound, and those who expected that business activity—and the market—would stall.



Thurston Blodgett, Tri-Continental Corp., says continued bull market calls for more discrimination in buying.



Analyst William Kurtz thinks Dow-Jones industrial average will climb to 850 next year, and keep on rising.



Lewis Schellbach, Standard & Poor's, looks for a "selective and halting" rise in stocks over next six months.



Edward Ryan, Boston Fund, is optimistic about short-term market prospects, believes gains will be moderate.

Cautious optimism. Now, analysts feel that an improving business picture will be reflected in higher stock prices. There are differences in degree, however. Frederick N. Goodrich, who heads investments for the U. S. Trust Co., describes himself as "cautiously optimistic" about the general level of the market on the basis of a rising, but not booming, economy. Edward F. Flynn, vice-president and director of Boston Fund, a \$285-million open-end balanced fund, also is somewhat

cautious, but thinks the first half of the year will record higher prices. Other institutional advisers tend to much the same moderate view.

In contrast, analysts in Wall Street brokerages are more ebullient. Sidney B. Lurie of Josephthal & Co. thinks that the "business outlook is better than people believe and the market will perform better." Bradbury K. Thurlow of Winslow, Cohn & Stetson, Inc., looks for a "clear excess of optimism" that may invite "irrational speculation," and is on

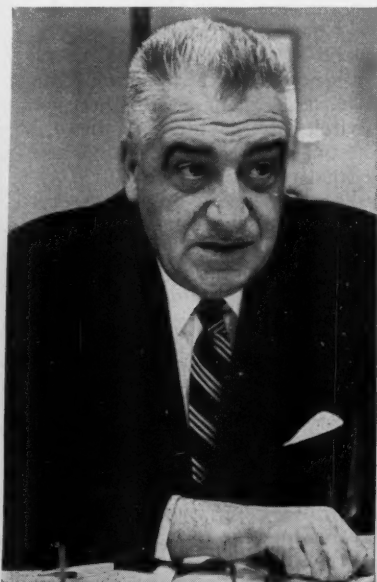
the alert for signs of the market getting out of control. Edmund W. Tabell of Walston & Co., who rank as one of the leading technical analysts, thinks that the Dow-Jones industrial average, now around 730, could rise to about 825 in 1962, but notes that it may be lower at yearend than at the start.

Unrestrained optimism. One of the most outspoken bullish predictions comes from William Kurtz of Paine, Webber, Jackson & Curtis, who looks for the Dow-Jones to climb to 850 and expects an even higher level in 1963. Kurtz, moreover, predicts that the advance will be broad rather than selective, although he favors cyclical issues, particularly in the capital goods field, as having the most potential. Kurtz believes the bull market should be subject to only minor corrections because there will be no need to take a defensive attitude with the economy in a state of boom.

While Kurtz is clearly more optimistic than most, the general expectation is that the Dow-Jones will hit 800 or better in 1962. But Kurtz is in a lonely minority in suggesting that the market as a whole will share in the advance. Every other investment man feels that some groups should advance far faster than the averages while some decline.

II. Investor choice

In looking over the market, investment men make the complaint that few stocks—or stock groups—are cheap. On the contrary, most say that by any yardstick, stocks are selling at extremely high levels. If



Technician Edmund Tabell feels stocks could hit 825 in 1962, but believes they may finish the year declining.



Analyst Bradbury Thurlow says "irrational speculation" could throw the market out of control next year.



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Investment men think problem of buying stocks has intensified with rise in prices...

Story on page 102

earnings and dividends rise as expected, a further increase in stock prices to, say, the 800 level won't alter the relationships. But many analysts think that if speculative enthusiasm leads to additional increases in price-earnings ratios and a new shrinkage in yields, then those who seek income—particularly pension funds—will begin to shift out of stocks.

Price volatility. According to Biggs, many big investors will view a rise in the market as "an opportunity to sell on strength." If this happens in large volume, it should tend to hold down any climb in prices. Indeed, it could bring on a downturn, for the market's steep climb is the result of a comparatively small amount of excess demand. If there were an excess of supply, created by shrinkage in demand, the market could beat a rapid retreat.

Blodgett points out that "while earnings in the aggregate have shown only modest improvement and no real gain for the last five years, stock prices have risen substantially." True, the quality of earnings has improved, with companies accumulating large depreciation reserves. But stocks are now selling at over 20 times earnings compared to an average of about 12 times five years ago, and it is questionable whether the ratio can continue to advance.

Harder choice. Most investment men think that the problem of investing funds in stocks has intensified with the rise in prices, and they are finding it difficult to come up with new choices that offer growth potential without too great a risk. Thurlow, for example, falls back on some of the blue chips as being reasonable compared with over-glamorized growth issues. Schellbach thinks it is still possible to find undervalued groups, citing trucking and oil. Other analysts are inclined to cyclical issues—paper, steels, machine tools—provided that economic activity remains at a high level. However, they don't look for any dramatic gains in cyclicals.

Careful picking. Most investment men believe that success in the market next year will depend on very careful selection of individual stocks. One pension fund manager says: "In

any field, even in an industry suffering from price competition and a profit squeeze, opportunities exist. Just because it is not easy to pick a sure thing, I am not turning my back on any suggestions. But I want to be assured of good management and rising earnings."

Other institutional managers have adopted much the same attitude. They make the point that growth stocks are unlikely to regain their lofty p/e ratios, although institutions plan buying them on a selective basis—if their future earnings look promising.

Institutions are still sticking to stocks, but they are putting their funds in issues that aren't likely to collapse in a market break. Explains a mutual fund manager: "We think stocks will work higher, but we would rather see our portfolio increase moderately and be protected against a sharp decline than ride a roller coaster."

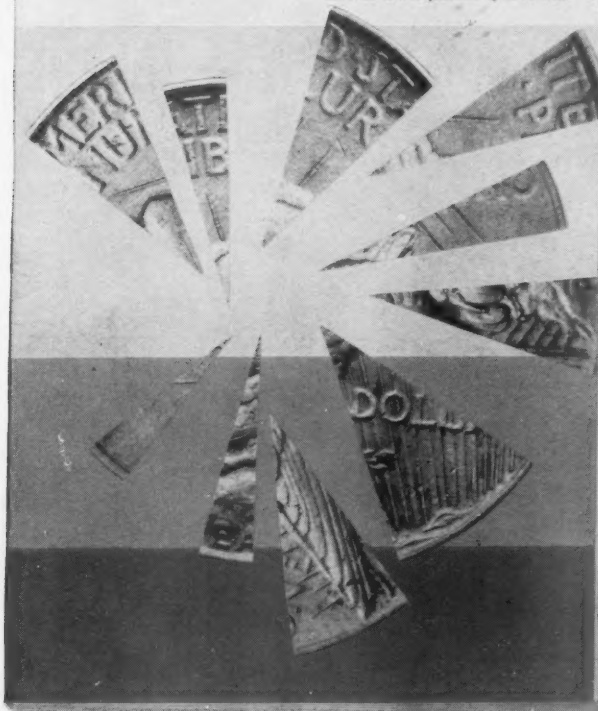
This does not mean buying into "defensive" stocks—utilities, foods, retail stores, cigarettes, soft drinks. As Schellbach points out, most of these issues moved up sharply in 1961 and are now selling at historically high prices. "There may be less risk and more profit in some of the pedestrian machine and aircraft stocks," says a bank trust officer.

Fixed—in some securities. So far, there's no sign of any marked interest in fixed-income obligations—or a switch out of stocks. William A. Morgan, vice-president in charge of the trust department of New York's Bankers Trust Co., says that there is no thought, as yet, of making a shift from equities. And others doubt that fixed-income securities will ever regain any of their old attractiveness. Another New York bank official noted: "We might conceivably put some of our fresh funds in fixed incomes, but we're not going to sell stocks in order to buy bonds."

But if speculation does return to the market, and stock prices climb beyond present expectations, a number of investment men say that they will then make a reappraisal. If they feel that stock prices are vulnerable, or the spread between stock and bond yields is big enough to dictate a shift, it could spell an end to the bull market. **End**

PRELIMINARY PLANS FOR CAPITAL SPENDING 1962 1963

McGraw-Hill Department of Economics



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American business now plans to invest 4% more in new plant and equipment in 1962 than it did this year. Nearly every major industry anticipates increased capital expenditures. If these plans are carried out, 1962 will be a year of relatively high activity in

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Wall St. talks ...

about arbitragers' Newmont-Magma deal, closing on Empire State, Milbank group

Arbitragers are weighing the risks in selling short Newmont Mining (74¾) while buying Magma Copper (68). Newmont, which is bidding for at least 80% control of Magma (it now has 21.5%), has offered to swap three-fourths of a share of a new 4% Newmont convertible preferred (convertible into 1.1111 shares of Newmont) for each share of Magma. Assuming that the Newmont convertibles eventually sell at a 15% to 20% premium over their conversion value of about \$82 (normal for such an issue), Magma is underpriced in relation to Newmont. But the deal might fall through, leaving arbitragers holding the bag.

Empire State Building Associates is confident of closing the \$65-million sale-leaseback deal. [BW Sep. 27, p69] set for Dec. 27. Participation units—at \$10,000 each—are going so well that ESB may take only a \$6-million mortgage from the selling group headed by Henry Crown, instead of \$13.5-million.

International bankers report that the proposed strengthening of the International Monetary Fund, which involves the granting of stand-by credits by a small group of countries, has been worked out. Congress will have to approve U.S. participation.

The Jeremiah Milbank group, one of the least publicized private pools of funds on Wall Street, has taken a position in troubled Columbus Electronics Corp. of Yonkers, N. Y., along with a group of other investors. They're getting a call on some of the company's already issued and outstanding stock in return for a loan.

Despite the big shake-out in science stocks, underwriters are pushing medical stocks, the latest fad in new issues. Reminiscent of the rash of issues featuring "tronics" as part of their titles, new filings registered with the SEC are heavy on "medical": There's Electro-Med, Inc., Medex, Inc., Medical Fund, Inc., Medical Industries Fund, Inc., and Medical Video Corp.



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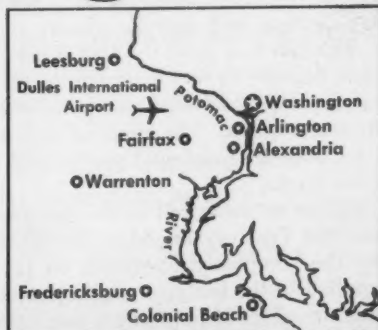
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Strong demand for stocks is expected to push market to new peaks soon

Although most stock market averages remained below their all-time highs this week, brokers were confident that the market would rise to new peaks. Indeed, they felt that the seasonal upturn was already under way, and helped by more encouraging business news, it seemed quite logical to expect increased demand for stocks.

But both tax selling and switching are still making themselves felt. Some issues, particularly those in electronics and other groups that have fallen out of favor, appear unnaturally depressed because of heavy sales to establish tax losses. In a week or two, tax-motivated transactions will be less of a factor, and from every indication, the market will then move upward, perhaps dramatically.

This is because there is a good deal of money available for equity investments. It is far bigger than the supply of stock, so that even a moderate increase in demand could trigger a fairly substantial gain. Where the gains will come is the big question, but cyclical issues and some of the blue chips are the ones most talked about by analysts.

Moreover, there seems little chance of any sharp decline, for many institutions are ready to buy in the event of a drop. The fact that institutions have been buyers whenever stock prices drop is indicated by the New York Stock Exchange's latest public transaction study, which detailed trading on Sept. 13, when the market was in the doldrums. On that day, institutions accounted for 26.2% of the shares traded—the highest percentage since NYSE first started its check in 1952.

IRS makes municipal bond dealers happy by dropping proposed tax ruling

Municipal bond dealers were overjoyed this week at news that the Internal Revenue Service has backed away from a controversial proposal that would have had the effect of taxing interest on state and municipal bonds. Municipal bonds have been exempt from federal taxation ever since the Supreme Court decided the famous case of *McCullough vs. Maryland* in 1819. Banks that have been holding back on purchases of tax-exempts will now be coming into the market.

The IRS had proposed that if commercial banks used time deposits to buy tax-exempts, then the interest paid on the deposits would not be allowed as a deductible item of expense. The effect of such a ruling could have hurt both the municipal market and banks, particularly local banks.

Still to be answered is the question of how the IRS and the Treasury intend to handle the problems raised by the complex tax formula on tax-exempts that was applied to the life insurance industry in 1959. This law has the effect of imposing a small tax on earnings from

municipal bonds. The Treasury denies that the life company tax violates the principle of tax exemption, and officials say, in effect, that it's up to the courts to decide who is right.

But an outright court test may be avoided. As a result of strong political pressure, a White House conference has been scheduled to try to work out a compromise in the dispute.

Doubts over what Fed will do dominate the bond market

Uncertainty about future Federal Reserve policy (page 34) dominated the bond market this week. Prices did not drop sharply, but traders said the tone in all segments of the market—government, corporate, and municipal—was “easy.”

The Fed is still keeping money plentiful, and there are no signs yet of a return to tight money. However, there are plenty of indications that the Fed wants higher interest rates—and lower bond prices—to prevent outflows of gold.

First, of course, is the raising of the ceiling on the interest rates that commercial banks are allowed to pay. Secondly, Fed Chmn. William McC. Martin made it plain this week that from now on the Fed may be somewhat less generous in its easy money policy. Said Martin: “Continued bank credit and deposit expansion will be needed without incurring the risk of excess, although perhaps not at the same high rate as was appropriate in the last year and a half of economic recovery from recession.”

The markets briefs

The Canadian dollar this week hovered near 95.8¢, a 10-year low, allaying fears it could not be held at a discount to the U.S. dollar. A heavy flow of foreign funds into Canada recently tended to push up the currency's value, but intervention by the central bank offset this upward pressure. The discount is counted on to increase exports and lower imports.

The Italian lira, on the other hand, moved up to the point where the Bank of Italy had to intervene in the market to restrain its rise. The move was sparked by rumors that the lira would be revalued upward, as were the Deutschmark and the guilder last March. In the forward (future delivery) market, prices for lira moved to a premium over the spot rate, as foreign companies with lira borrowings covered their liabilities. Foreign exchange men seriously doubt that Italy will revalue, if only because of the substantial—and not entirely expected—problems that the Dutch and Germans have encountered in their revaluations. More likely, they say, would be a general widening of the spread—generally $\frac{3}{4}\%$ either side of par—within which currencies under IMF rules are allowed to trade freely.

December 9, 1961

'Living trust' is valuable planning aid

In reviewing your own financial plans at yearend, you should look closely at the "living trust" as a useful device to benefit your family.

Unlike the usual type of trust—set up in a will—this one begins operating during your lifetime. It's a highly flexible instrument. And it offers tax savings and other advantages.

Establishing a living trust involves only a simple agreement between donor, trustee, and beneficiary. In addition, you have considerable freedom in laying down the ground rules.

Take these examples:

- You can use the trust to transfer money, property, or income to a family member (or members) for a period of years.
- You can arrange for the trust to dispose of property at a time you designate—for instance, when the beneficiary reaches a certain age, gets married, has a child, or dies, or when you die.
- You can have the income paid to another person for a stated number of years and, at the end of that time, the income reverts to you.

How to figure the advantages

Quite apart from these advantages, you can set up an irrevocable living trust so that you don't pay taxes on the income from the property that has been transferred. In effect, you can split off the top, high-taxed layers of your present investment income.

Thus, with a short-term lifetime trust—10 years or longer—you can shift the tax burden into a lower bracket within the family circle. Then at a later date when your personal income decreases, as it may likely in retirement, you get back the income-producing property.

Say you're in the 50% tax bracket and want to set aside funds for your son's college education. If you simply invest \$10,000 at 5%, you owe \$250 in taxes—half the \$500 return. With the 4% dividend credit, you're left with \$270 net. In 10 years you put away \$2,700.

Suppose, instead, that you set up a 10-year trust. The \$10,000 has the same \$500 income, but only \$350 is taxable—you can deduct a \$100 trust exemption and the standard \$50 dividend exclusion. At its 20% tax rate, the trust pays \$56 a year to the IRS (\$70 less \$14 for the 4% dividend credit).

Thus, the trust's \$500 income reduces to a net-after-tax of \$444. In 10 years this comes to \$4,440—instead of \$2,700.

Supporting a relative

Or maybe you have set aside a fund to contribute to the support of an aged relative. Say the investment income is \$2,222, which—considering your 50% tax rate and the 4% credit—leaves \$1,200 a year net.

Suppose, instead, you set up a trust for the relative, using enough money to produce the \$1,200. Assume the relative has \$600 in other dividend income and Social Security (tax exempt), for a total taxable income of \$1,800. This means a tax of \$62 a year—\$620 in 10 years.

That leaves you income of \$1,022 (\$2,222 less \$1,200), on which you now pay \$470 in taxes, or \$4,700 in 10 years. But the 10-year tax paid by you and your relative comes to just \$5,320 (\$4,700 plus \$620).

Compare this with the \$10,220 (\$1,022 a year) you would have paid to the government had you overlooked the use of a trust.

Personal business Continued

A good deal— with few limits

The living trust has some other advantages. You can be your own trustee—and when you die, your wife can take over or a corporate trustee can step in, possibly with your wife as co-trustee.

Also, the living trust stays in operation at the donor's death, thus avoiding the probate delays of a testamentary trust. Further, there is no probate fee and no publicity, as in the case of a trust set up by will that becomes a matter of public record.

The limitation: You may have gift taxes to contend with when you establish the trust. But even here there is a silver lining. The \$3,000 annual exclusions and the \$30,000 lifetime exemptions—which both you and your wife are entitled to under the gift tax law—give you a large area of tax freedom.

Note, too, that with a trust lasting your lifetime you cut down the size of your taxable estate, thus reducing estate taxes. And the gift tax rate—if you do pay when you set up the trust—is 25% lower than the estate rate.

Capsule guide for buying toys

Here are some basic guides on buying gifts for small fry—plus new ideas.

Age 1-2: Best toys are peg boards, wooden trains, blocks, rubber toys, push-pull toys, soft animals. Ideas: plastic telephone, \$1; Playskool wagon of blocks, \$4.98; F. A. O. Schwarz's rocking boat, \$28.75.

Age 2-4: Recommended are pounding sets, simple puzzles, little cars and trucks, simple baby dolls, doctor and nurse sets. Ideas: Ideal "Kissy" doll, \$17.95; American's "Hedda-Get-Bedda" doll, \$12.95; "Activity table" with pegboard, magnetic letter board, \$14.95.

Age 4-6: Popular are paper cutouts, ring toss, miniature stores, roller skates, scooters, doll houses. Ideas: Ohio Art Etch-A-Sketch, \$3.98; Eldon kitchen sound set, \$12.95; Twirly tricycle, \$17.95; F. A. O. Schwarz's Sully Cycle, \$125.

Age 6-8: Good toys are electric trains, metal construction sets, hobby sets, elaborate dollhouses and dolls, sports outfits. Ideas: Walco fun with flowers, \$2.98; Ohio Art magnastiks, \$5.95; Lionel's rocket firing missile car, \$9.95; passing football target, \$9.95.

Age 8-10: Suitable are advanced craft and construction sets, science kits. Ideas: AstroPhone walkie-talkie, \$29.95; Science Book-Lab kits, \$3.95 ea.; Strombecker electric road racing set; \$29.95.

Age 10-14: These youngsters like practical sports equipment, advanced hobby sets, dress design, intricate plane models. Ideas: GE electronic science kits, \$9.95-\$39.95; Lionel famous inventor series, \$8-\$25; rocket-firing Air-cobra plane, \$9.95.

Caribbean vistas

If you're mulling over a Caribbean itinerary, two new books can help give you a sharp view of brightest attractions. **Four Paths to Paradise**, by Hugh Cave (Doubleday, \$4.95) explores Jamaica—and gives more than the usual tourist-guide information. And **Enjoy Puerto Rico**, by Carmen Chiesa de Perez, proves that a native can write superior travel books (Vantage, \$4.95).

The Bahamas, too, are given some fresh treatment in **Bahamas Handbook**, by Etienne Dupuch (Dupuch Publications, Box 958, Nassau, \$7.25).

Executive chef

New York's Forum of the Twelve Caesars suggests this idea if you want a variation from plain beef: Use 12-oz. filet mignon; make slit in top and place 1-oz. chip of pate de foie gras inside. Broil.

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MACHINE IT FOR LESS / CINCINNATI



Cintimatic drill brings tape control to a 7-man shop

You don't have to be a giant to gain big savings through numerical control. A small, seven-man shop located on the eastern seaboard has demonstrated this fact over and over with a recently installed Cintimatic Drilling Machine.

Numerically controlled with tape programming, the new unit permits high production while

maintaining positioning accuracy with uniform tolerances. It also eliminates the need for costly drilling jigs and minimizes set up time. What is more, reliability of the ACRAMATIC control permits use of Cintimatic Drilling Machines in any shop—even those which do not have a high level of electrical maintenance.

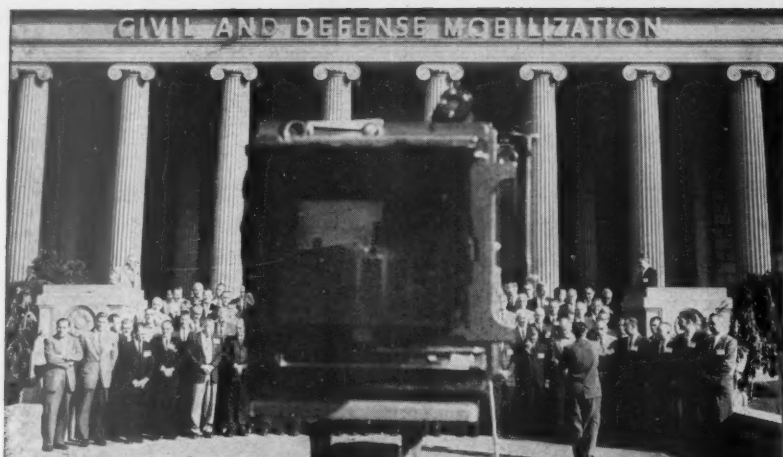
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CINCINNATI



Class of 120 men and a girl takes time out for picture with Staff College faculty on second day of the course. This is main entrance of former sanitarium.

DEFENSE

Back to school to learn civil defense

Nearly 2,000 business executives and other employees have gone through this five-day course at Battle Creek, Mich., since 1955. It's practical security advice, they find

In the picture above, former patients may recognize the entrance of the imposing Kellogg Sanitarium of yesteryear, a landmark of Battle Creek, Mich. Ramps for the wheelchairs of dieting tycoons remain in the building, as do the elegant chandeliers in the vast dining room.

But the 120 men and a girl who stopped at the front desk a couple of weeks ago to register with the uniformed government guard weren't checking in for a rest cure. They were mainly business executives and supervisors from 26 states and two foreign countries. All of them had come to study for five days in the Staff College of the Office of Civil Defense.

The group nicknamed the former sanitarium the Conelrad-Hilton—a bow to civil defense's Conelrad system of joint radio broadcasting, and also to their resort hotel-like accommodations.

Industry course. These 121 students formed the largest class ever to take OCD's special course in industry defense and mobilization.

This course has been given, generally four times a year, since 1955, a year after the civil defense agency moved from Washington to Battle Creek. It has graduated nearly 2,000 students.

Protection of the nation's industrial plant during an emergency has been rated as a vital part of all defense planning. With international tensions building up lately, industrial management has shown increasing interest in getting the facts on how to protect plant and personnel from blast and fallout of a nuclear bomb. OCD's course puts practical information in the hands of those who must plan protective steps for their companies.

Who comes? The course isn't open to just anyone. Companies get in touch with OCD in Battle Creek or with local CD units to nominate employees who would benefit from the training. Some enrollees come from schools or from government agencies outside OCD; a few represent organized labor. But most are from companies, and their titles



Makings of field hospital are spread out on floor of old gymnasium for inspection. Earl

A. Gr
Medica



Questions fly in big lecture hall at panel discussion on "How Some Companies Have Prepared for Disasters," and...



Answers come back, from moderator Richard L. Wheland of Jones & Laughlin Steel Corp., and panel of experts.



Bull session in one of the hotel-type rooms brings out an array of documentation, mostly filed on the bed. Such teams work on hypothetical case studies.



Bomb blast is diagramed by Charles K. Shafer in class on radiological defense.



George Burnside, Jr., of Aerojet-General Corp. crams 30 lb. of text into bag.

A. Grove, left, of OCD Biophysics & Medical Sciences Div. describes items.

Isn't one fleetcar finance leasing plan the same as another?

Many companies—investigating finance leasing—note a similarity among the various plans. It's this similarity that makes all the difference to the user of 25 or more business cars. For him, the vital question must be: which lessor can buy new cars for less, sell them used for more—anywhere and everywhere? Only Hertz has the extensive, nationwide marketing facilities, experience, and skill to get the maximum return for this multi-car user. That's why so many of these companies now equip their men with brand-new Chevrolets, Corvairs, or other fine cars, under a Hertz 25-PLUS Finance Lease Plan. (Note: many other companies find a Hertz Full Maintenance Plan—serviced by America's most complete car maintenance operation—fits their needs best.) Use coupon below for additional facts about all Hertz Fleetcar Leasing Plans.



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range from owner and president down to foreman.

Typically, the student is an executive who has just been handed the duty of coordinating his company's plans for civil defense. His hyphenated or parenthetical title very likely includes a reference to civil defense, safety, protection, security, emergency, or disaster. One man in the November class was identified as coordinator of his company's "war plans."

Some students, however, are repeaters, returning to Battle Creek to brush up on new developments. Because of this, and the fact that as many as 20 from a single company may be enrolled at one session, OCD's Industry Office estimates that fewer than 300 companies have been represented in the course this year, despite an individual enrollment of around 400.

Tuition is free; loyalty to the U. S. and interest in civil defense are the principal entrance requirements. Accommodations in rooms as well appointed as any hotel's are available at only \$1.50 a day per person. Meals are served cafeteria-style under those elegant chandeliers in one of the nation's most nobly proportioned dining rooms.

No snap course. Everything else may be a bargain, but no one has ever called the Industry Course a "snap." An awesome amount of instruction, some of it pretty awesome in itself, is crammed into the five days.

On its first day, last month's class heard introductory lectures on the national attack-warning system, the effects of chemical, biological, and radiological warfare on industry, and the National Program for Industrial Survival—all by OCD experts, including Virgil L. Couch, director of the Industry Office.

But that wasn't all for the day—not by half. After a strategic briefing on the power of Russia, the class was brought back close to home with talks by two industrial security officers on sabotage and subversion in industry. These speakers were Edgar L. Robbins of Reynolds Metals Co. and Harold D. Knapp of Radio Corp. of America.

Political orientation. Particularly as regards personnel security, this phase of the students' orientation to the reality and immediacy of the Communist threat can touch off an emotional and extremist response, and Couch is aware of this danger. He says he is against witch-hunting, and he uses special care in picking his lecturers for this part of the course.

"I know a rabble-rouser when I

hear one, and they scare me," he says. "I don't want any part of it."

The time devoted to domestic Communism has grown, by demand of the successive classes, from the few minutes originally devoted to it. Students seem impressed by statements of the House Committee on Un-American Activities and FBI director J. Edgar Hoover.

But the November class carried its moral indignation only so far. Many rushed to congratulate Knapp on his talk about Fourth Dimensional Warfare and to tell him their own feelings about Commies and pinkos. But few attended a showing of the controversial film Operation Abolition, to which the local chamber of commerce invited the class. (The film deals with events in San Francisco during the House committee's hearings there last year.)

Industrial defense. Political orientation to internal security dangers, however, occupied scarcely three hours of the week-long course. There were 25 lectures—eight of them by guest experts from industry—to cover every industrial defense problem that management might reasonably cope with:

- Richard L. Wheland, industrial defense director for Jones & Laughlin Steel Corp., outlined all that his company has done in preparation for nuclear disaster.

- John E. Twomey, industrial defense planning supervisor for Western Electric Co., Inc., stressed the importance of training the plant's civil defense corps.

- C. David Tillery, non-military defense supervisor for American Telephone & Telegraph Co., discussed the problems of emergency repairs. As many speakers pointed out, industrial defense isn't limited to providing shelter or preventing sabotage; after an attack, restoration of service becomes the prime goal.

- Kenneth E. Yandell, security coordinator for Standard Oil Co. (N.J.), talked about what a company might do to preserve its headquarters facilities and assure continuity of management. In Esso's case, it means office space 30 mi. from New York City [BW Dec. 12 '59, p32].

- Louis F. Metz, Cincinnati plant emergency administrator for General Electric Co., explained the benefits from joining an industrial mutual aid association for civil defense (page 122).

The class agreed that protection of personnel has priority over protection of plant, and it eagerly studied plans for evacuation and for emergency shelter. With a wealth of official information and company experience at hand—each student received

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If your company makes vinyl plastic products you may already know of Pittsburgh Chemical Company as a leading producer of plasticizers. With our Oxo Chemicals Company joint venture, Pittsburgh Chemical will now control both raw materials . . . alcohols from petroleum . . . phthalic anhydride from coal. This is a unique and interesting story that could benefit you, and we'd be happy to tell about it if you write or call us.



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(Advertisement)

Construction Business

- Industrial Building Records Big Gains
- Corps of Engineers to Assist NASA

Construction's spectacular for October was Industrial Building. New projects poured into design offices at double September's rate, pushing its 10-month score 9% ahead of last year. October Industrial Building contracts almost tripled their low September pace to gain a 2% increase over the like 1960 period.

Among the larger projects planned or under contract are a \$6 million processing plant for the Sun Maid Raisin Growers of California at Selma, to be built by L. A. Dixon Co. of San Gabriel ... Badger Mfg. Co. of Cambridge, Mass. will design and construct a propylene purification plant at Lake Charles, La. for Cities Service Oil Co.

Freer, Texas will be the site of a \$3 million natural gasoline plant, to be constructed for Phillips Petroleum by Dresser Engineering Co. of Tulsa ... \$3 million warehouse will be erected at Englewood, N. J. by Glenwal Co. of Montvale for lease to Chevrolet Division of General Motors.

The National Aeronautics and Space Administration's Moon-shot Apollo project will mean big construction. Four district Corps of Engineers offices will assist NASA in acquiring real estate, designing and constructing facilities. Jacksonville will be responsible for design and construction at Cape Canaveral; Fort Worth for the manned spacecraft laboratory near Houston; Mobile for land acquisition and development of a static test facility for Saturn and Nova boosters on the Pearl River in Miss.; and Los Angeles for design and construction of test stands for F-1 engines at Edwards Air Force Base, Calif.

Other construction: World's largest nuclear test reactor at Arco, Idaho, as proposed by Fluor Corp., Ltd. of Los Angeles, has been selected by the AEC at an estimated cost of \$40 million. Ebasco Services, Inc. of New York is architect-engineer with the nuclear portion designed by Cabcock & Wilcox of New York.

Johnson, Drake & Piper, Inc. of New York took the \$11.1 million contract to extend Queens County Van Wyck Expressway for improved access to New York City's 1964 World's Fair ... Dark horse Clancy M. O'Dell Const. Co. of Baltimore turned in the \$11.2 million low bid on Canyon Power Tunnel for San Francisco's Hetch Hetchy Water System expansion.

ADVT. "There may be some dispute about the strength of the nation's economy, but one aspect appears just about indisputable. Construction, perhaps the kingpin of industry, is close to winding up a record year." (N.Y. Times, 11/19/61). EN-R is the Number One access to the decision makers who buy for construction. Get the pertinent data from your advertising agency.

ENGINEERING NEWS-RECORD

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Virgil L. Couch, director of OCD's Industry Office, created the course.

about 30 lb. of instructional material during the week—the only questions about shelters seemed to be not "whether" but "how soon" and "at what cost."

Real work. It was a busy week for the class. Besides attending lectures and panel discussions, students viewed more than a dozen training films and spent hours in workshops trying to improve the complex but deficient defense plans of a hypothetical company.

Lights burned late every night in most rooms. Many students found themselves in their first honest-to-goodness bull session since college days. At the close of the first day, one student phoned his boss:

"You know, I was pretty doubtful about this. Everybody says no one has the answers on civil defense and anyway what can you do when the bombs start dropping? Well, I was wrong. These people here have the answers, I think. It's good stuff, very good stuff, and more of our people ought to get it."

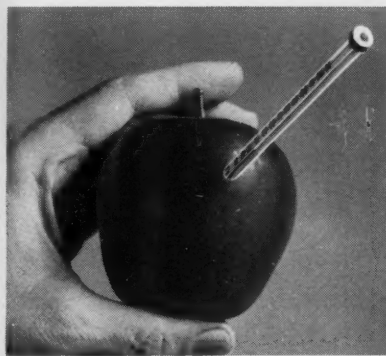
Couch didn't happen to hear this testimonial, but he has heard many others since he created the Industry Course. He has been in civil defense administration since the beginning of World War II. Besides the Staff College program he's taken a shorter version of the course to 50 cities in the past five years.

"Counting up all our work," he says, "we've reached at least 100,000 executives. We've had businessmen of every kind take this course at Battle Creek. This time there's only one banker, but we do have a real estate broker and a couple of owners of small businesses, in addition to all the plant people." **End**

This is the way to run a railroad

One of these 3 new freight-moving ideas might work for you

Industrial sand rides the rails in specially-designed steel drop bottom containers, slides easily into hoppers at destination. Less sand is spilled and wasted, and unloading time is slashed, compared to old way of shipping in boxcars. Backhauls of fabricated products in the same containers results in an overall annual saving of more than \$35,000 for this happy shipper.



Apples move from packer's dock to flatcars to consignee's dock—via NP's fleet of refrigerated trailers. Temperature and humidity are carefully controlled. Supplementing our regular refrigerated car service, this new service is designed for receivers in North Dakota and Minnesota not located on rail sidings.



Boats traveled on flatcars from the midwest to west coast dealers. The boat builders loaded their over-the-road trailers and we piggy-backed them west. Shipments arrived in good condition and in ample time for the short selling season—and at considerably less than the over-the-road cost.



What's your freight problem? Call the NP freight representative nearest you so we can get together and move on your problem. It's our job to speed your shipment, protect it enroute, and save you money wherever possible. And we'll do it!

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Spotlight on industrial defense

Some 200 top-level company executives flock to meeting to hear corporate role in civil defense stressed, get first-hand view of shelter for 1,700 at Rohm & Haas



Pres. S. A. Anthony, Jr., heads National Institute for Disaster Mobilization, a private, civil defense group.

The new impact of civil defense planning throughout the country was evident last week, when twice as many corporate officers as had been expected showed up for a symposium in Bristol, Pa., on industrial defense planning. The meeting was held at the local plant of Rohm & Haas Co., which has a bomb shelter for 1,700 workers kept stocked with food for two weeks [BW Oct.21'61,p137].

The symposium, sponsored by the National Institute for Disaster Mobilization and Rohm & Haas, was the first aimed at corporate officers "on the policy level." Despite scant advance publicity, 200 top-level company executives turned up for the one-day session—some from as far away as Texas and Minnesota.

Corporate defense. Like the Office of Civil Defense itself, NIDM through its research, publications, and conferences of various types seeks to promote the basic concepts of civil defense. It serves somewhat as a private and unofficial agency of civilian defense for its corporate and other members.

The organization's income from memberships doesn't reach five figures a year, says Pres. S. A. Anthony, Jr. (picture, left). "My own," he adds, "comes mostly from consulting work with the AEC and private industry."

But the companies that belong to NIDM include, besides Rohm & Haas, such names as Union Carbide Corp., Standard Oil Co. (New Jersey), Radio Corp. of America, S. C. Johnson & Son, Inc., Johnson & Johnson, and Babcock & Wilcox Co.

Almost a hundred others are represented on its rolls, together with individuals from agencies such as the American National Red Cross, the Salvation Army, the Volunteers of America—organizations that must be prepared to meet and relieve disaster.

Last week's meeting emphasized industry's part in civil defense. The corporate officers got from Robert L. Corsbie, deputy assistant director of the Atomic Energy Com-

mission and its Director of Civil Effects (Atomic) Test Operations, a detailed picture of the effects of nuclear bombing on industrial plants. Richard Hellman, chief economist of the Business & Defense Services Administration of the Dept. of Commerce, stressed how heavily the civil defense effort must rely on corporations.

Veteran. NIDM has been holding annual industrial and mutual aid seminars throughout the country since 1957. Under various names, it has been working on promotion of civilian defense much longer than that—ever since 1942, in fact. Today, it's "the one national association which serves all those concerned" with civilian defense, says its chairman, William H. Baumer, assistant to the president at Johnson & Johnson.

NIDM claims particular credit for having assisted in promoting the formation of many of the mutual aid associations through which neighbor companies have come together to share in planning for survival from natural or wartime disasters.

Forums to answer the needs of its members are also held from time to time. They have covered every kind of industrial defense problem, from building plant personnel shelters to the legal aspects of arranging management continuity.

Front-line view. Last week's meeting, with Rohm & Haas as cosponsor and host, was arranged in cooperation with the Defense Dept.'s Office of Civil Defense and the Business & Defense Services Administration.

Visitors got a first-hand view of the significance of industrial personnel shelters in a tunnel-by-tunnel inspection of Rohm & Haas' complex underground installation—which NIDM considers the most extensive personnel protection program of any in industry.

The visitors plied their guides with every question in the book: What did it cost? How thick is the concrete? How many women does the company employ? But they also seemed interested to get up and out

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One of our sales engineers made the first contact, sold Warner & Swasey on permitting us to put Clark relays through their rigorous "round-robin" reliability test requiring many millions of electrical contact operations.

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0191



from "down under" at the trip's end. Nobody insisted on testing survival biscuits and canned water while reposing on the bare board bunks of the shelter's "personnel tubes" instead of lunching in the company's comfortable main dining room.

Task for management. After lunch, the conference plunged back into the problems of management under defense conditions. Hellman of the BDSA offered certain grounds for optimism: "What we should realize is that there will be islands of destruction, but the vast area of the country will survive."

Hellman argued that operation of a productive plant just can't be separated from the life of the surrounding community, nor from the "production mesh" of which it is a part. The corporation, he said, "exercises more day-in-day-out authority even than government"; and that's why, in the civil defense effort, "American industry has a real opportunity to come into its own."

First aim. If Hellman offered hope that the industrial economy would not be entirely knocked out, the final speaker, William Durkee, Deputy Assistant Secretary of Defense for Civil Defense, again put his audience into the shelters. The first big objective of the government, he said, must be a program of fallout protection for all.

Speaking for Asst. Defense Secy. Stuart L. Pittman, Durkee admitted that "we haven't defined all the problems ourselves."

Durkee explained that "right now our job is to get a perspective on what the job of civilian defense really is." He pointed out that the Defense Dept. has "had the responsibility only for the past 114 days" in civil defense.

But he did reveal the latest development—this flashy new OCD black and yellow marker for fallout shelters, here held by Baumer.



More news about marketing:**Page 128, A new look for 3M****Page 130, Growing pains at SBI**

**Toronto pay-TV is having a rough time,
but backers say potential is still good**

Trans-Canada Telemeter appears undaunted by talk that its Toronto pay-TV experiment [BW Mar.12'60, p131] is finding the going rough. From an initial 1,000 subscribers, the operation in suburban Etobicoke has grown till it now reaches into some 5,500 homes. Come January, it plans to start installation to add another 1,000 subscribers. Barney Balaban, president of Paramount Pictures Corp. (parent of Famous Players Canadian Corp., which is in turn parent of Telemeter), admits that the experiment is losing about \$3,500 a week—but he compares this to the huge losses of commercial TV in the early years. Of the future, he says only, "Paramount's confidence in the potential of the new medium remains unchanged."

Telemeter has broadened its sports coverage this fall to take in all the Toronto Argonauts football club home games and out-of-town Maple Leafs hockey club games for the season. Football games cost the viewer \$2; hockey, \$1.25. Telemeter indicates plans to put on some shows of the type offered this year—which included live telecasts of Show Girl and Hedda Gabler from New York—for about \$1.50. Current movies run about \$1 during the week. And there are daytime music and public service telecasts for free.

**FTC ties strings to use of list prices
in decision involving Regina Corp.**

The Federal Trade Commission's running probes into manufacturers' list prices [BW Sep.23'61,p142] resulted in an important decision last week. In a case involving Regina Corp., hearing examiner Herman Tocker handed down an initial decision that permits Regina to continue to set suggested retail prices—but attaches a number of strings to that permission. Tocker refused to rule that Regina's lists were false.

Manufacturers who provide such lists must make clear that they are given (1) only for information and identification; and (2) with the "express condition and understanding" that they shall not be used as an indication that they are the customary retail price when in fact they are not. Retailers' advertised comparisons of list and "our low price" brought on FTC's complaint that the lists were false and misleading.

Tocker did recommend that Regina, which has a co-

operative advertising program with retailers, be enjoined from paying any part of advertisements by retailers who use "deceptive" list price comparisons.

The ruling—which will get a line-by-line scrutiny from the commission—is a controversial one. Some FTC staffers believe it gets the manufacturers off the hook by giving retailers sole responsibility for improper use of lists. Others feel the ruling places at least partial responsibility squarely on the manufacturers.

Regina interprets the finding as favorable, but it may have to overhaul its co-op advertising policy to conform.

Confusing matters even more is a contradiction between federal policy toward list prices on autos and their use on all other merchandise. Congress by law requires that cars carry posted list prices. FTC's solution apparently is to regard cars as a matter out of its hands, and carry on under the broad terms of the Federal Trade Commission Act when other merchandise is in question.

**Court backs FPC's right to try to set
uniform prices for major gas producing areas**

The Federal Power Commission now has been given legal encouragement to push ahead with its attempt to use an area-of-production basis in setting prices for independent natural gas producers. In unequivocal terms, the U.S. Court of Appeals for the District of Columbia has endorsed FPC's right to try this new form of regulation, and swept away some of the doubts raised by the gas industry over the legality of the method.

Last year, FPC gave up trying to regulate producer prices on a company-by-company basis by figuring the reasonable price from each producer's costs [BW Oct. 18'60,p109]. The commission concluded the old method was too arbitrary and cumbersome. Henceforth, it said, it would set uniform prices for all producers within each major producing area. It was this decision that brought the matter to the attention of the Court of Appeals.

Marketing briefs

Bell & Howell Co., under an agreement with Canon Co. of Japan, will introduce a line of 35-mm. still cameras and an 8-mm. movie camera early in 1962. Canon will produce the cameras in Japan and Bell & Howell will market them in this country under the combined Bell & Howell and Canon label.

Beerman Stores, Inc., Dayton, Ohio, last week filed suit for \$3-million triple damages against Federated Department Stores, Inc. Beerman charged Federated with violating monopoly and trade restraint laws by "coercing and controlling" suppliers to refuse to sell all or certain merchandise to Beerman by actual or implied threats.

Familiar names in the same type for a new identity



SCOTCHGARD SCOTCHGARD

Thermo-fax

Thermo-Fax

SCOTCHLITE SCOTCHLITE

3M
COMPANY

3M
BRAND

3M
|||||

One image for many products

Minnesota Mining & Mfg. hopes to make customers aware of common identity of its products with newly designed corporate symbol and type face for brand names

Products of Minnesota Mining & Mfg. Co., St. Paul, are used every day by millions of people in factories and homes, but for a long time the company has had the unhappy feeling that practically nobody realizes it.

Blissfully unaware of this, the customers have just gone along making the cash registers ring with purchases of Scotchgard, Scotchlite, Thermo-Fax, sandpaper, and the other products of Minnesota Mining & Mfg. to a constantly rising volume that this year should exceed \$600-million. Many of the customers, particularly the industrial buyers, recognize what they buy as being a "3M" product, even if they're not quite certain what the three Ms stand for.

From now on, if Minnesota Mining & Mfg. has its way, it will be known as the "3M Company."

New type face. To tie its variety of products to a single company identity, 3M has even gone the length of having a special type face designed; and from now on its trade names (with some very special exceptions) will be printed only in the

new type. A further common identity is established by using the logotype 3M in the new type face (illustrations above).

So long as the customers buy the company's products in the quantity they have been, you would think 3M officials shouldn't be concerned over whether the buyers know the name of the manufacturing company. Minnesota Mining & Mfg. executives, though, have a longer-range goal in mind in undertaking such a massive recognition program.

The purpose. Theirs is a research-minded company with a spate of new products always on the way. So, says Pres. Herbert P. Buetow, "if a buyer is conscious of three of our products we gain acceptance for a fourth one."

His company is not the first (and it's unlikely to be the last) to be faced with the necessity of creating an environment of acceptance for new products. Even General Motors Corp. in the Twenties, had to begin insisting that its divisions use the General Motors name—or the GM symbol—in all of their advertising because the corporation was trying

to establish a standard of acceptance that would apply to everything it made.

Similarly, Buetow's hope is that customers for the company's gyro fluid as well as Scotch tape, copying machines, stain repellent, and all the rest will recognize through the distinctive new logotype and specially designed type face that they are purchasing a product of the "3M Company."

Misnomer. The "Mining" part of its name has been a misnomer almost from the company's inception in 1902. It was founded that year in northern Minnesota to mine corundum, but the ore turned out to be worthless and 3M turned to making sandpaper instead. Quarrying of silica for use in its roofing granules business is as close to mining as the company has gotten since its start 59 years ago.

The multiplicity of product and brand names and lack of cohesion in their appearance stems from acquisitions of other companies and their products, and from an absence of central control on advertising and promotion as the company poured

**How do you know
your business is
really covered by
adequate insurance?**



You don't know your business is adequately covered by insurance—**unless you insure through an independent insurance agent.** Here's why:

No single insurance company offers every type of business insurance.

If you buy insurance directly from an insurance company, it's likely that you will hear only about the policy or policies that company offers. But

if you insure your business through an independent insurance agent, here's what happens: He chooses for you the best insurance for your particular business out of hundreds of policies offered by many, competing insurance companies.

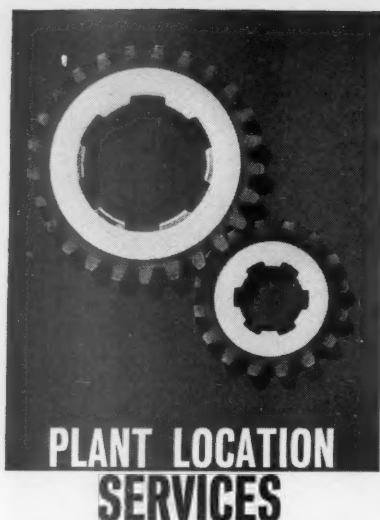
The Big Difference in business, car, and home insurance is the continuing, personal attention you get only

from an independent insurance agent.

You can be sure your business has adequate insurance coverage whenever you insure through an independent insurance agent. So look for this seal before you buy insurance.

Only an independent insurance agent can display it.





Northern's location staff analyzes all important factors—sites, sources of supply, markets, power and fuel, financing sources, community environment—all tailored to your needs. For these free services to help you select the most profitable location:

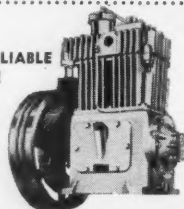
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out new products for a wide variety of markets.

"We talked about standardizing our logotype and tying together our trademarks for 20 years," says Buetow. "Our new identification symbol lends uniformity, from packaging in the warehouse all the way to final use by the customer."

Misused 'bug'—The company decided to attack its problem of "apartness" in June, 1960, when a committee headed by Executive Vice-Pres. Joseph C. Duke made a presentation before a management committee meeting. Using flip charts, the committee showed how the logotype was being abused.

George W. Sandell, project coordinator, says there was a "general lack of respect" for the existing system. The logotype or "bug"—so-called because of a laurel wreath around its oval shape—was relegated to a minor position in many ads, he says. In some, it was used as a repository for additional copy about a product.

"We also showed that the 3M part of the logotype occupied only 14% of the space that we had to pay for in advertising copy," he says.

Bids were taken from design firms and the job of devising a new symbol and entire new type face was awarded to Gerald Stahl, Inc., of New York. His first efforts shown to the management committee in November, 1960, were a shock, says Sandell; but the committee and a conference of division advertising and merchandising managers approved the general approach.

Distinctively different. The distinctiveness of the new logo and alphabet—dubbed "Buetow bold-face" by one critic—never was argued, says Sandell. But whether it was too harsh was debated at length. Buetow liked the stylized, modernistic effect. "If it's harsh, at least you'll remember it," he says. But before settling on it, he asked the three-man project committee personally to interview each of 75 management men—vice-presidents, general managers, sales managers, and advertising managers—in the company's organization.

This group voted 92% in favor of Stahl's work and last April Buetow gave it his official blessing. All divisions and subsidiaries were told to use the new logo in advertising, promotion, and packaging materials, but certain product and brand names were exempted from using the new alphabet. These included the names "Sasheen," "Magic Bow," and "Decorette"—gift wrap ribbons aimed at women. The severe new lettering would be out of character.

Packaging, letterheads, labels, calling cards, and other printed matter were not destroyed but were used up at normal rates to hold down costs. Including Stahl's fee, the entire program cost only about \$50,000, says Sandell.

New magazine gets a shake-up

Show Business Illustrated, a bi-weekly magazine about the entertainment industry, has dropped some members of the cast and given the plot a thorough shaking up as a result of disappointing notices in the tryout.

SBI made its bow in August [BW Sep. 2 '61, p79] as a production of Hugh M. Hefner, of Chicago, editor and publisher of Playboy magazine. To give it more dignity and wider appeal than the peekaboo but profitable Playboy, Hefner hired editors well-known in New York magazine circles. Now some of these key men have left, including Frank Gibney, editorial director and assistant publisher, and Leonard Jossel, art director.

Hefner himself has taken full control and says he has been disappointed in SBI because it lacked unity, immediacy, and intimacy—especially intimacy. "The magazine should have an intimate, personal involvement with show business," says Hefner. "We have been on the outside looking in—instead of behind the footlights."

"Our mistake," says a Hefner associate, "was in bringing in a large number of people from the East to run the magazine."

No curtain. Despite his new production's problems, Hefner says he has no intention of ringing down the curtain on Show Business Illustrated. But he is cutting back to 21 issues a year. He still expects to make his circulation guarantee of 350,000 during the first six months of publication, and says he never expected to move into black ink until mid-1962. "A pleasant surprise" is Hefner's comment on the 10 to 12 pages of advertising SBI has been carrying each issue.

From now on, though, SBI under Hefner is going to pay more attention to "straw-hat" theater, foreign films, comedy, television, and Broadway, and less to show business reminiscences. **End**

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Ending the gap that never existed

For the past three years, the U.S. public has been confused and U.S. foreign policy hampered by the bitter debate over something called the "missile gap." Like all catchphrases, the missile gap meant different things to different people; to the extent that it signified anything definite, it meant that Russia had developed or was on the point of developing an overwhelming superiority in intercontinental ballistic weapons.

Now, the missile gap has been ended abruptly—in the same way that it originally was created—by a new appraisal of Russia's missile arsenal. The three U.S. military services, in a revaluation of intelligence, have decided that Russia's capability is not greater than ours now and does not threaten to be in the foreseeable future. The debate of the past three years, it seems, was utterly pointless.

But the fact that the missile gap was chimerical does not mean that it did us no harm. There are times when the belief in a thing can be almost as damaging as the thing itself.

Alarm about the supposed missile gap produced a feeling of uncertainty and even defeatism among

a good many Americans. More than that, it gave Russia an enormous advantage in dealing with wavering neutrals and uncommitted nations. In pressuring underdeveloped and unsophisticated countries, Moscow lost no opportunity to boast of a superiority so great that even the U.S. admitted it.

The missile gap, therefore, did us great harm, even though it never existed, and even though—as the Pentagon tried to point out—the thing that counts in nuclear war is not just numbers of missiles but the capacity to deliver a retaliatory strike. So long as they believed a gap existed, many people all over the world believed that the day was coming when Khrushchev would be able to hold his gun to our head and dictate any terms that he liked.

And so it is a healthy thing to have the missile gap obliterated. The significance of its end will not be lost on world opinion.

Meanwhile, there is a lesson that we can learn from the experience. We cannot afford to let up for an instant in our military programs. We must see to it that no missile gap ever does develop. For if one ever does, the Soviets will make the most of it.

A realistic look at the world

There is good reason for this country to breathe a little easier now that the Pentagon has made its reappraisal of Soviet missile strength and found that our security has not been put in jeopardy by a missile gap. But while this is reassuring, the situation we face in the world still is a most unhappy one.

In an address last week to the Investment Bankers Assn., John J. McCloy painted a stark picture of the East-West struggle and the dangers of living under a balance of terror. In his view—and he was the President's Special Adviser on Disarmament until recently—there is little prospect of slowing down the arms race after Moscow's duplicity in carrying on test-ban negotiations while preparing for nuclear tests.

Unfortunately, there is no hope that the United Nations can play a constructive role in this situation, particularly after the neutral nations shrank away from any definite response to the Soviet resumption of testing. As McCloy rightly observed, the abdication on the part of the non-aligned nations at Belgrade and in the U.N.'s 16th General Assembly was another setback to the cause of peace.

Under these conditions, said McCloy, the free world cannot remain static and still expect to meet the Communist challenge. Now that Britain is joining the European Economic Community, our goal

should be to unite the two sides of the Atlantic on the basis of a common economic interest and a solid political purpose. Only then will the Communist world be cut down to size.

McCloy is to be congratulated for this hard-headed attitude and for pointing out that the U.S. has been concentrating too much attention "on the moods and attitudes of those whose directions are still uncertain or unformed." Meanwhile, we have paid too little attention to preserving the strength of those "who are already committed to the principles of individual freedom and initiative."

It clearly is time for this country to adopt a more realistic approach to the U.N. and toward the neutral nations who are gaining so much influence in that organization. It would be well, as a starting point, if we could accept the proposition that the U.S. has no obligation to the U.N. that extends beyond our national self-interest, using that term in its broadest sense.

To be sure, we cannot expect the U.N.—or any other mechanism of international consultation—to do what we want on each and every issue. But if the present trend continues and the U.N. increasingly follows courses that are contrary to the U.S. national interest, then our reason for supporting it would cease to exist.

